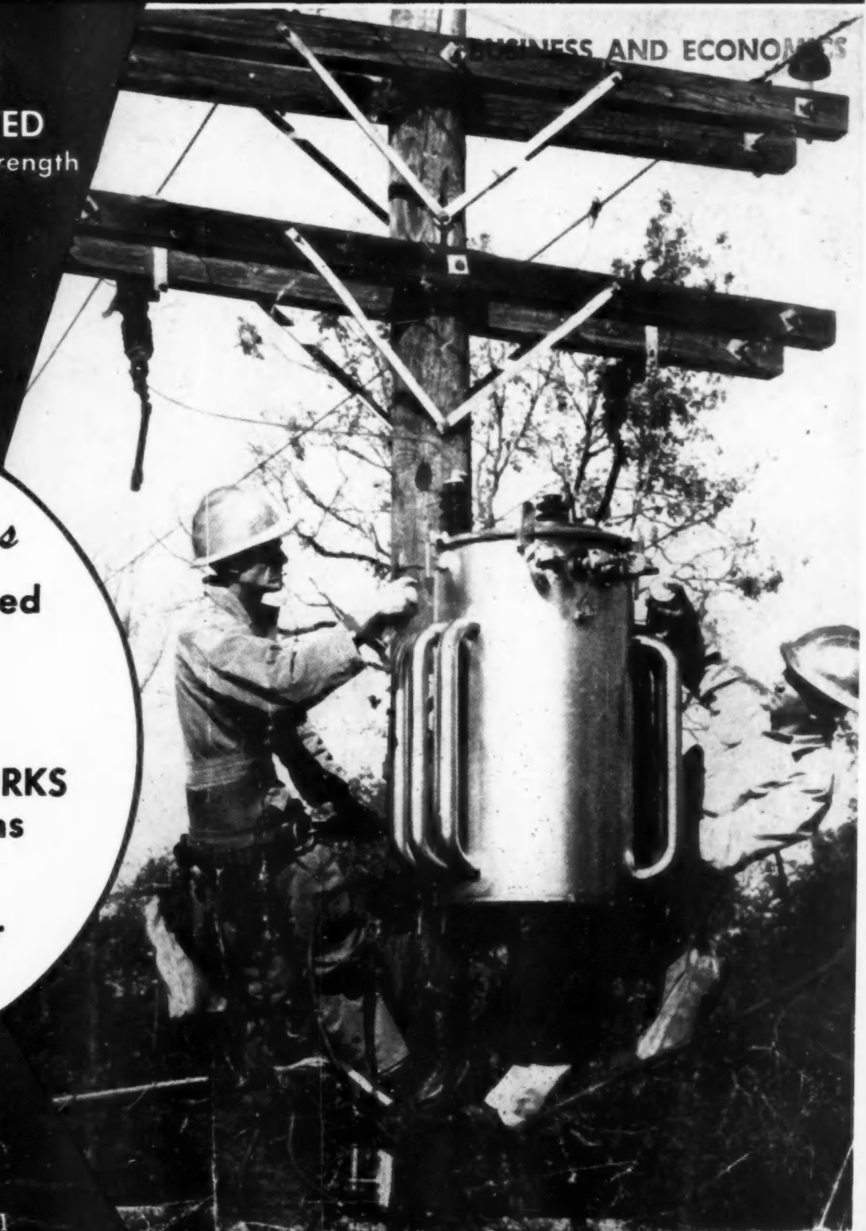
# NEW FORCES SHAPE MARKET OUTLOOK


# The MAGAZINE of WALL STREET
## and BUSINESS ANALYST

JUNE 6, 1959 85 CENTS



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by deteriorating U.S. financial strength
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# THE MAGAZINE OF WALL STREET
## and BUSINESS ANALYST

*Member of Audit Bureau of Circulations*

Vol. 104 No. 6 June 6, 1959

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*Cover photo: Courtesy of Middle South Utilities*




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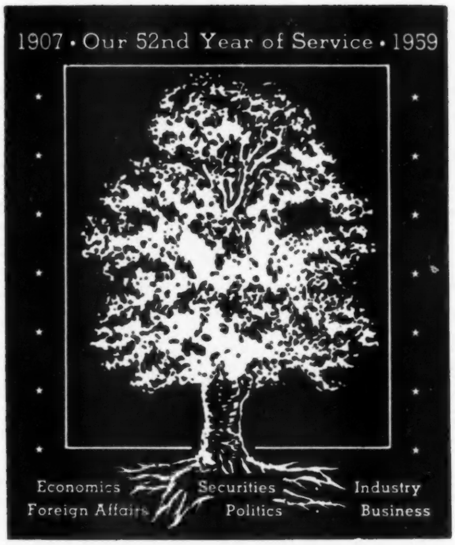
C. G. WYCKOFF, *Editor-Publisher*




# The Trend of Events

**OUR HIDDEN DEBT** . . . As the Government's fiscal years draws to a close, our Federal debt stands at the astronomic figure of $285 billions. This will be cut by $2 billions this month in order to meet requirements of our Federal debt limit, which automatically drops to $283 billions on July 1st. This small reduction will be short-lived, however, since one of the top items on the Congressional Agenda will be a further boost in our debt ceiling to authorize further deficit spending.

Of course, the mere lifting of the debt limit will be a simple step compared with the actual raising of funds to pay for the free-handed spending and, at the same time, meet Federal obligations falling due. In August some $13.5 billions in debt is maturing for payment, while in the next twelve months a huge total of $71.2 billions falls due and must be paid. This makes no allowance for $51 billions in savings bonds which investors can cash in at any time — a step that might easily be hastened if inflationary pressures gain momentum.

There is a popular misconception that if we paid off this $285 billions, the nation would be free of debt. Nothing could be further from the truth. There would still remain a staggering hidden debt.

It is noteworthy that before he left office as Secretary of the Treasury, George M. Humphrey, submitted to the Senate Finance Committee a tabulation of these contingent liabilities — which then amounted to $288.7 billions. Since then, the Government has increased this "under cover" debt by higher unemployment compensation, aid to depressed areas, and liberalized mortgage credit.

One means by which the actual debt has been obscured from clear public view is through the "trust fund", of which Social Security is one outstanding example. The specific taxes collected are channelled into the Treasury — which has been spending them. The Social Security reserves were merely credited by a bookkeeping entry — a situation likely to boomerang, as this year, for the first time, payments for social security exceeded the inflow.

The Treasury also guarantees the Railroad Retirement Fund and the Federal Employees Retirement Fund, with contingent liability estimated at $20 billions — as well as the trust set up for our vast Highways Construction program.

Recently, there have been welcome signs of resistance to further lengthening of the list of Government guaran-

*(Please turn to page 362)*

*We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.*

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Our 52nd Year of Service"*—1959

# *As I See It!*

by Charles Benedict

## WESTERN EUROPE IS TEARING DOWN TRADE BARRIERS BETWEEN THE STATES — WHILE THE U.S.A. IS PUTTING THEM UP

IT is interesting to note the "get-togetherness" of the European countries in solving their trade and financial problems, which inevitably must result in strong political alignments.

The common markets springing up on the continent arise from recognition of the fact that the allies after World War I made a great mistake in breaking up the interdependent entity of the Austro-Hungarian Empire. This set adrift a number of small countries unable to fend for themselves economically or financially, each of whom tried to survive by raising tolls and tariffs against each other, making profitable trade impossible.

The economic repercussions were so disastrous that their hard-won "self-determination" turned to disillusionment, because in practice they found the conception to be wholly idealistic politically, and utterly impractical economically. And the ensuing chaos made them a most vulnerable prey for communism.

During the time that elapsed, the best minds in Europe recognized that the road to maintaining, assuring and strengthening the independence of their countries lay in building economic power, which they realized would, at the same time, insure greater political stability through collaboration.

From this emerged first, the Benelux Group, and then the European Common Market, which set up free trade areas for the mutual advantage of member countries protected by a tariff against outside competition.

And now, in addition to the European Common Market, which includes Belgium, France, the Federal Republic of Germany, Italy, Luxembourg, and the Netherlands, seven other European nations outside that common market are planning to set up their own free area, by the end of 1959, under the name Euromart. The participants included Britain, the Scandinavian countries, Switzerland, Austria and Portugal, who will meet next month to formulate and agree upon a plan of collaboration. These seven nations intend to reduce tariffs on goods traded among themselves, but to retain their own existing pattern of duties on imports from other countries.

Such an alliance, together with the European Common Market, will strengthen the position of the West European countries both politically and economically, and will lessen the tension that has existed on that continent for so many centuries, where the rivalries have led to one war after another.

After all, each one of these countries have their own specialties, crafts at which they are the most skillful, and products they can produce more economically, and industrialization which can be operated by cooperative effort.

### A Similar Interdependence already Exists between the Various Member States that Compose the United States of America

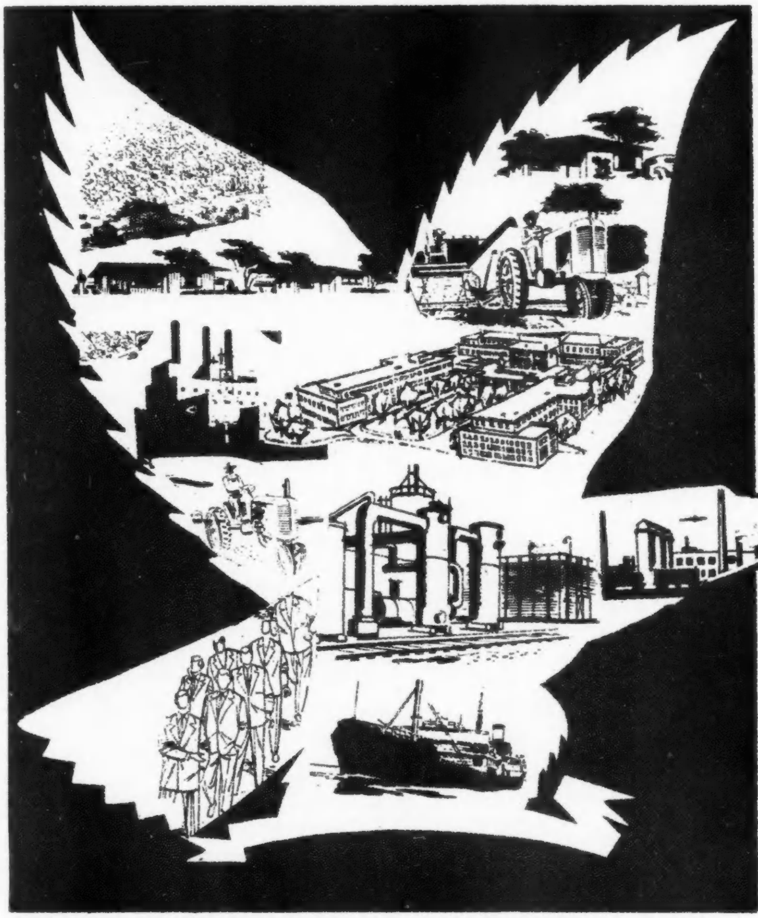
If you analyze the position of the individual states in this country, you will notice that they are interdependent in the same way as were the states composing the Austro-Hungarian Empire, and could not exist independently as self-contained units. Therefore it must be apparent that only great harm can come from taxing the products that cross state lines. It will disorganize and upset existing economic setups—disrupt distribution—and that this situation will also raise prices and produce a higher cost of living for our citizens must be clear.

Since the United States possesses the greatest free market in the world, it is unbelievable that the Supreme Court of the United States should have handed down a decision that will tend to end free trade between the states and destroy the broad open market that was designed by our founding fathers to be operated on the basis of "One Nation—Indivisible."

It is unthinkable that our highest court should have legalized such a backward decision—particularly coming at a time of major readjustment in our economy, which is being met with such courage and ingenuity by industry—and, at a time too, when there are the enormous opportunities existing for expansion and growth in our country that can raise us to new heights if our economic, political and financial affairs are handled constructively and with wisdom under a free national market.

At the moment, it seems we not only have the

problem of over-coming disintegration in our financial affairs—as pointed out in the article in this issue, "The Promise of Great Expansion & Growth Threatened By Deteriorating U. S. Financial Strength," by Michael Stephen—but there are also the problems of creating a reasonable attitude in the unions, in order that we may stabilize the position of labor, which must take part in the constructive effort in building our future prosperity, which calls for the making of decisions that will sustain and bulwark our position, instead of tearing it down, as suggested in the article by Mr. James J. Butler, "Let's Eliminate Preposterous Featherbedding As First Step To Lower Labor Costs,"



which also appears in this issue.

Thus, on top of being obliged to solve such titanic problems, the Supreme Court's obstructive decision adds a mountainous burden that should promptly be negated by the passage of a new law that will help us to maintain free markets which are imperative to our national well-being.

So shocked were we by the ruling which permits each state to tax as it pleases the goods of any other state coming into its territory that we sent a copy of our article, "Will Supreme Court Decision End Free Trade Between the States?" (which appeared in the March 28th issue) to every Governor, calling attention to the harm that would result from the insidious and creeping destruction of the system that made our country the greatest single free trading area in the world.

**Response from the Governors of States**

The responses from the various governors have been very enlightening. In fact, we have met with the greatest understanding from almost every capital.

*Governor Christopher Del Sesto of Rhode Island said, "I have read the article with great interest and feel that you have performed a great service in bringing this matter to the attention of your readers."*

*Governor John E. Davis of North Dakota said, "I enjoyed reading this most interesting and informative article. It will be interesting to see what states, which do not tax the revenues of out-of-state companies, will do as a result of the Supreme Court's decision declaring that revenues from sales or services finalized within the state become subject to the same tax a domestic firm pays on its income."*

Governor Harold W. Handley of Indiana in replying, calls attention to the high prices that would inexorably follow application of interstate tax levies and the regimentation of interstate trade. His letter follows, as well as the statement on his veto:

*"Thank you for the marked copy of the March 28 issue of The Magazine of Wall Street. The 1959 session of the Indiana Legislature enacted a bill with far-reaching effects for the rigid control and licensing of the milk producing and distributing industry.*

*"It also enacted a so-called 'fair trade' bill of similar nature (HB 5). I vetoed both bills early in March, and for the same reasons. The enclosed copy of my veto message of HB 5 should give you a good understanding of how we feel."*

**House Bill 5 — Statement by Governor Harold W. Handley**

"The Indiana Attorney General has cast grave doubts on the constitutionality of House Bill 5. Moreover, the consumers of Indiana — and that means everybody — would suffer under the regulation proposed by the bill.

"The free citizens of the sovereign State of Indiana have developed and prospered under a systm which encourages individual initiative and imposes as few controls as possible.

"The government of the State of Indiana has not yet become the dominant force in the daily lives of its citizens. They have been able to handle their own affairs without a bureaucrat sitting at their elbows.

"House Bill 5 proposes to establish minimum resale prices upon commodities bearing trade marks, brand names or producer's names. It seems to *(Please turn to page 362)*

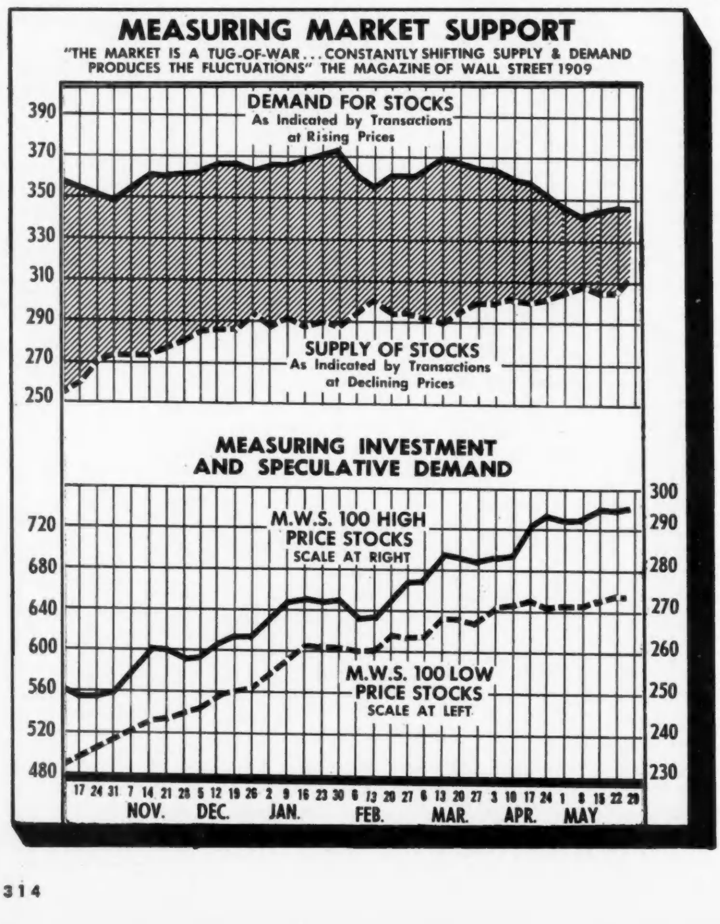
# New Forces Shape Market Outlook

**Notwithstanding familiar adverse technical signs, it seems clear that no serious reversal in trend is in prospect at the moment, and that various individual issues are so favorably situated that they may be expected to withstand technical correction. But with a marked narrowing in business and profit gains ahead, new buying poses the kind of uncertainty that calls for caution.**

**By A. T. MILLER**

Disturbing technical factors are becoming increasingly evident in spite of persistent strength in a comparatively small segment of seasoned equities represented in the Industrial Average and other recognized market indices. To say that the "market" rose to an all-time high last week is misleading, for, as a matter of fact, a comparatively minor selection of the broad list established record peaks. In four of the five trading sessions more stocks declined than advanced, and on Friday's climb to a fresh peak by the Industrial Average, the volume of transactions fell to the lowest figure since mid-February.

Trading activity slackened last month as prices rose — that is, prices of popular stocks represented in typical averages. The turnover in May declined to 70,968,740 shares from 75,886,965 in April, but the Industrial Average rose 18.73 points to 643.79 in the month, despite the fact that in three of the four weeks, more individual issues declined than advanced. Group rotation became increasingly evident as interest converged on favorites that previously had been neglected. For short periods, strength appeared in steels, then shifted to electronics or to pharmaceutical issues and chemicals, Rails and machine tool stocks claimed attention at times, and for a few days gold shares featured the list.

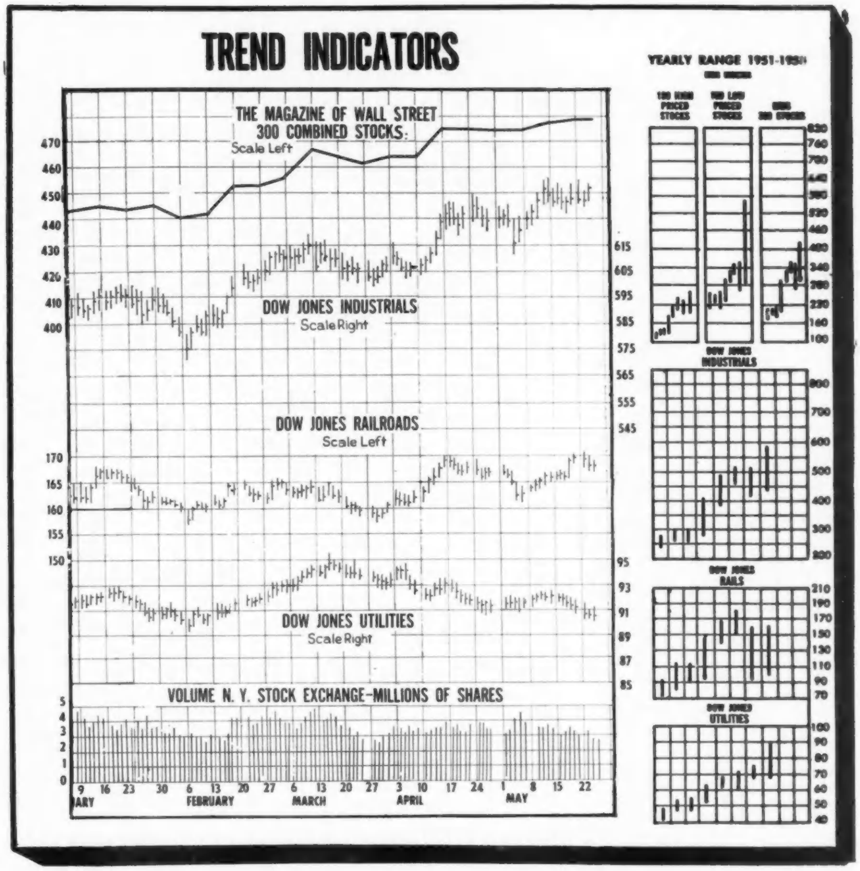



*Such rotation of group popularity is a familiar characteristic of a mature intermediate advance that signifies either a sizable corrective reaction or a sidewise movement in representative averages while earlier gains are consolidated.* Also, significantly, the month's most active session was May 7, when prices were falling, while the slowest day was marked by an advance in the Industrial Average to an unprecedented high. Unless traditional technical manifestations have lost their import, one must surmise that increased overhead resistance is likely to develop. Of itself, the evidence of lost momentum is not necessarily bearish. It simply suggests that chances of reactionary tendencies have increased.

### Trends in Business Market Factors

Reasons for gradual lightening of

holdings under cover of strength in so-called blue chip stocks are not difficult to discern. The principal worry at the moment is the threat of a long steel strike — of four to six weeks, as a guess. Even though many manufacturers have accumulated substantial inventories of critical materials, widespread unemployment in a major industry for more than a month would create an economic handicap likely to have a depressing effect on many industries. Suspension of work in the nation's principal steel mills for example, would mean considerably more unemployment on railroads and other transportation agencies and a general tightening of the belt.




Moreover, the automobile industry is approaching a seasonal lull. Dealers' showrooms are well stocked and production lines are scheduled to commence a gradual contraction this month. Thousands of workers will be furloughed for a changeover to 1960 models in the next two months. Thus market behavior may be influenced more by prospective third quarter operations than by imminence of excellent earnings figures for the three months ending June 30.

### Technical Position

In addition. signs of credit stringency are becoming plainer. The action of Federal Reserve authorities in raising the rediscount rate to 3½ per cent came as no surprise in view of the earlier advance in the prime rate to 4½ per cent. Although rising interest rates testify to good business, they hint of speculative excesses of one kind or another which may foreshadow trouble ahead. For example, stiffer money rates pose a problem for would-be home buyers and others who may be contemplating construction projects.

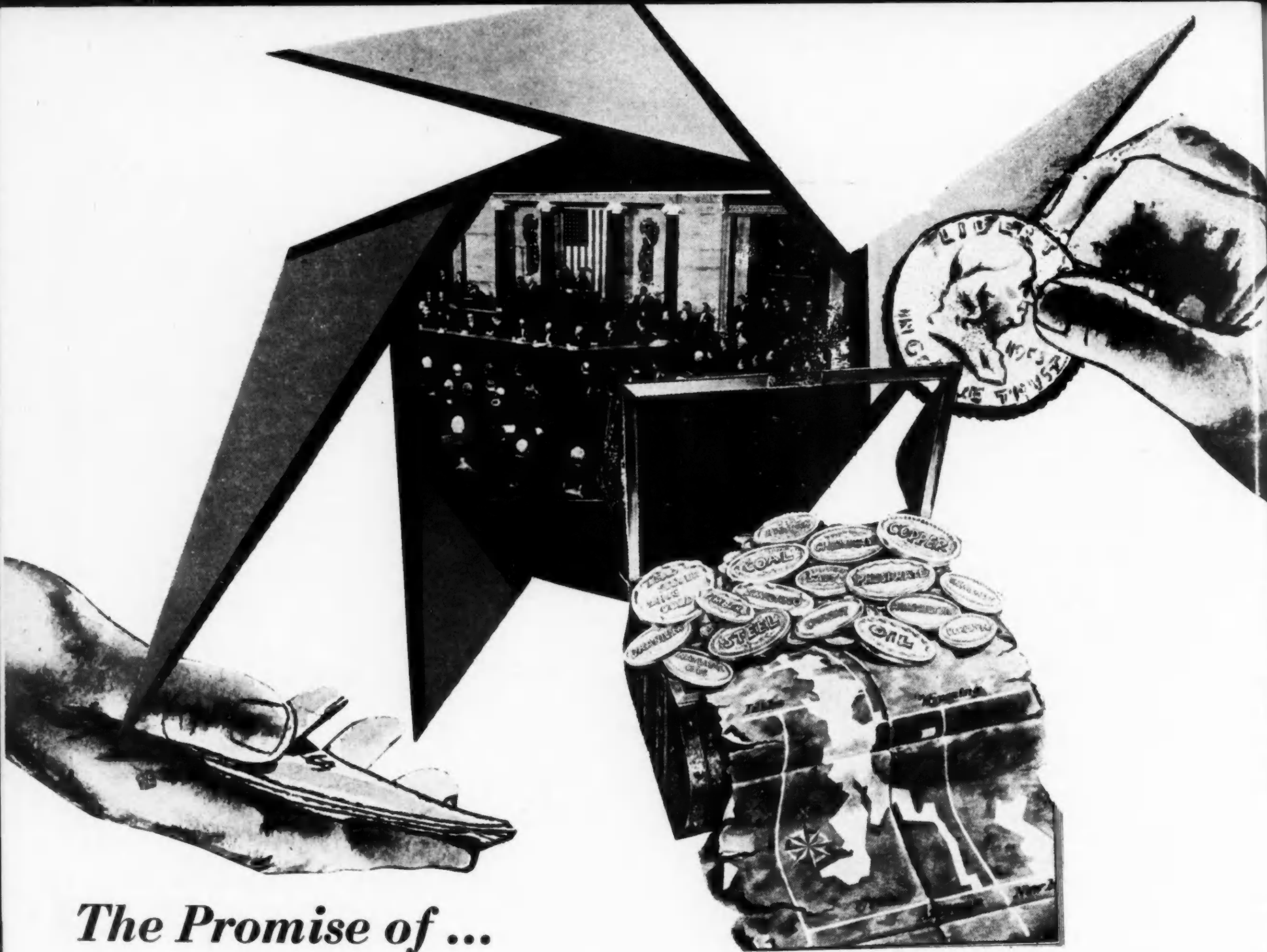
The picture provided by our market support chart (preceding page) deteriorated slightly last week. The favorable gap between supply and demand is only half what it was a relatively short time ago, but has not narrowed enough to represent warning of a sell-off. Comparative trading volume reflects a considerable watering-down of the earlier speculative enthusiasm. As heretofore, the daily ups and downs in individual stocks are in fairly close balance. The number of daily new highs in individual stocks continues relatively small as compared with the showing at earlier stages of the market rise.

### Market Support Measurements

Additional signs of internal deterioration developed in the Market Measurements, which disclosed a narrowing of the favorable spread. Demand fell back 4 points to 343, while Supply rose 5 points to 311, reducing the divergence in the lines to 32 points.

### Supply-Demand Factors

At this or somewhat higher market levels, the supply of stock is bound to be increased appreciably by a further partial shift in corporate capital financing to equity issues and/or convertible securities, tending to correct previous supply shortage. While institutional funds remain buyers on balance, total demand, already toned down, may become less aggressive as the usual result of advanced stock prices and excessive valuations of many issues. We continue to advise retention of positions in good stocks held at advantageous prices. For new buyers our highway sign reads: "Caution — curves and rough spots ahead." — Monday, June 1.





*The Promise of ...*

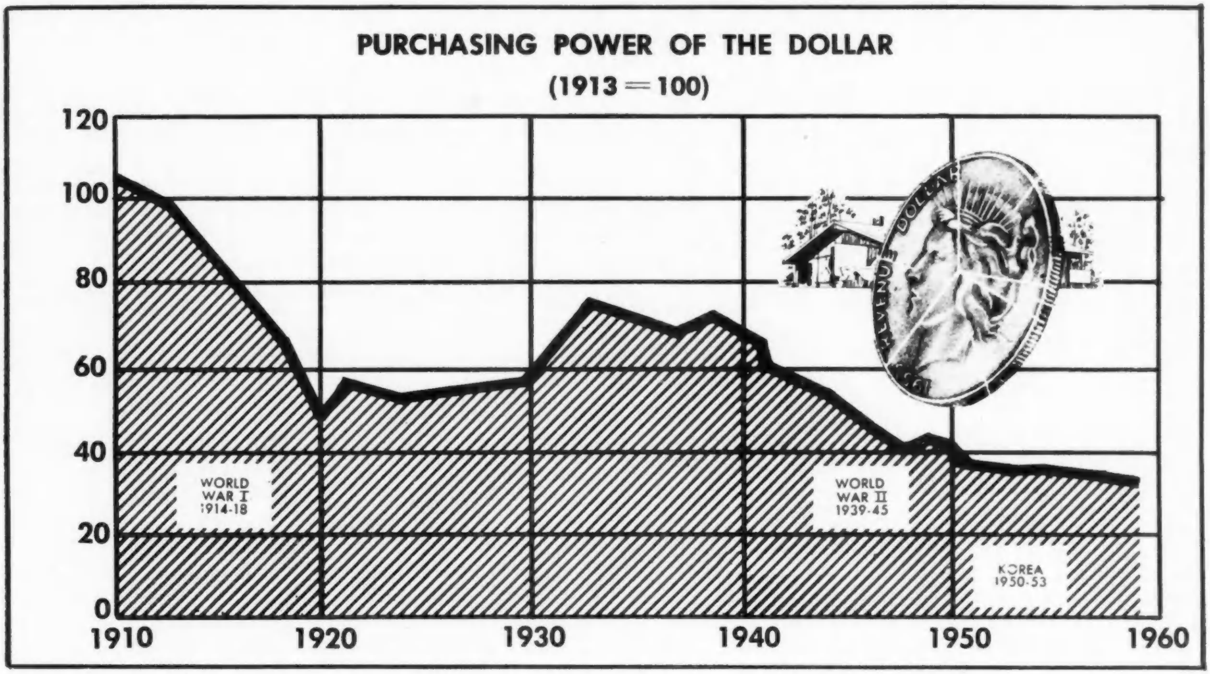
# Great Expansion and Growth Threatened by Deteriorating U.S. Financial Strength

By MICHAEL STEPHEN

- **Today's dollar worth 48c in terms of 1939 value — only 34c compared to 1913 dollar — with prestige on decline abroad**
- **The dangers in the reluctance to buy government bonds — obliging Treasury to resort to short term financing although facing tremendous volume of short term debt coming due**
- **How the serious inflationary aspects of increasing money supply brings higher costs and prices which, coupled with strait-jacket of enormous tax burden, destroys small business and threatens consumer buying power**
- **That necessary personal and corporate tax cut if our economy is to expand and grow — now stymied by inflationary government spending**
- **What to do to strengthen our position at home and abroad — where strengthening of pound sterling — the mark — the French franc — have made London, Frankfort, Zurich and Paris serious competitors of New York as financial centers**

WHILE public attention is concentrated on the impressive upsurge of business activity, signs of strain in the U.S. financial structure are causing increasing concern to perceptive people here and abroad. The U.S. has had periods of financial weakness before, but they have usually been related to special burdens of war as in the early days of the Republic and during the Civil War period. The paradox today is that symptoms of financial instability are appearing just as the U.S. economy has recovered from the 1957-58 recession and is poised on the threshold of a new era of expansion and growth. For the first time in our history, we are entering a period of economic expansion with the all important underpinnings of financial strength deteriorating.

Most Americans are not aware of the dangers a shaky financial position can represent to real living standards. We still live secure in the belief that we are the richest nation in the world, that others may have to live within their means but that we are exempt from the ordinary economic laws.




But the old and experienced hands at the helms of central banks and Treasuries abroad are too wise, too steeped in the hard school of experience to ignore the early signs of financial distress. The fact is that foreigners are much more aware than Americans of the danger of the growing toleration, if not acceptance, of some degree of inflation in the United States. They are much more sensitive to the implications of an overload of public debt. *To sophisticated foreigners the inability of the U.S. Treasury to sell bonds within the 4¼% legal interest rate limit, and the consequent resort to short-term floating debt,* suggest the beginning of an old story which all too often has ended in economic distress. The gold outflow represents foreigners' edgy and early reaction to a gradually growing distrust of the dollar.

It is a sobering commentary on the deterioration of our fiscal reputation in the world, that many nations which we have supported for years, and to whom we have freely given advice on the practice of fiscal responsibility, now question our sense of financial responsibility. It was President Eisenhower who revealed this on April 23, when he reported:

> The Secretary of the Treasury told me, when he came back from New Delhi a couple of months back, that he was questioned by twenty-one different governments as to our ability to pay our bills and therefore to keep the dollar as sound as it needs to be. . .

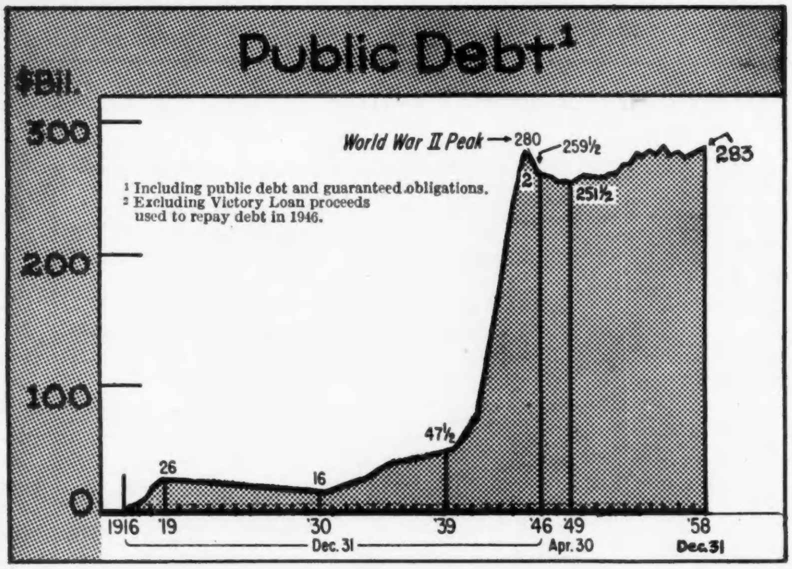
The failure of people generally to pay more attention to developing financial weakness stems from preoccupation with the impressive display of strength and resiliency that our productive apparatus has just given. Particularly impressive is the ease of the recovery from the 1957-58 slump. It is no small thing, after all the fears of a great postwar depression, that the U.S. economy has now weathered three postwar recessions and has held all of them to moderate proportions.

Furthermore, evidence for further expansion in business abounds on all sides. Perhaps most convincing is the fact of what we have accomplished already. The Federal Reserve Board's index of industrial production in April moved up two points for the fourth successive month to a new high of 149 (1947-49—100), a level 18% above its recession low a year ago. *Particularly encouraging is the fact that the April gain in industrial production was only partly due to steel output,* where high activity reflects stockpiling in anticipation of a steel strike. *Instead, the April rise in industrial production reflected a broadening out of the recovery, a catching up of sectors that had heretofore been lagging.*

**Gross national product**—the sum total of all goods and services produced by the economy—reached a new high of $467 billion in the first quarter of 1959, and there is no question but that the figure will be still higher when second quarter results are in.

Growing confidence on the part of both businessmen and consumers is being expressed in the most convincing way possible—with hard cash. Businessmen, particularly in the last few months, have stepped up plant and equipment expenditure plans beyond levels previously projected. It now seems clear that **plant and equipment outlays in 1950 will exceed** by a considerable margin the $31.8 billion projected earlier in the year, and they could touch $35 billion a year by the fourth quarter of 1959.

**Consumers,** for their part, have pushed total retail sales to successive new record highs this year, with a definitely stronger feel to consumer buying evident since mid-March. Automobile sales have shown the most encouraging spring pickup since the boom of 1955, and forecasts of sales of 6 million cars this year no longer seem high. Significantly, consumers in recent weeks have been showing a renewed willingness to go into debt for the things they need, the best measure of how confident they feel about the future.




Still on the horizon are the benefits to be derived from the **massive highway building program** of the Federal Government and the States, which will make feasible still further decentralization. This in turn implies **development of new housing, industrial centers** and broadened travel patterns of the people. Then there is the **new St. Lawrence Seaway,** opening up the heart of the Middle West to ocean-going steamers and **providing a new force for economic development.**

Still further ahead are the benefits to be derived from vast programs of research being undertaken by industry and the Federal Government. The newest breakthrough on the horizon is the **conversion of saline water to fresh water** by chemical and other techniques, for which the Federal Government is already constructing demonstration plants. Meanwhile, **nuclear energy research** is going steadily forward. Not long ago the Chairman of the British Cunard Lines stated that nuclear power plants might be used in the ships planned to replace the Queen Mary and the Queen Elizabeth. The fact is **that the billions of dollars spent annually for military research** and development are **extending the horizons of civilian industry,** providing experience for professional and other skilled workers, *expanding opportunities for investment in new materials, processes and products,* and *raising the prospect of living standards such as the world has never seen.*

The danger is that the brightness of all these possibilities will blind us to the realities of the hard work needed to get them. Some people already feel that the sky is the limit on our aspirations, that we can squeeze all we want out of the economy at our pleasure. But the fact is that we cannot buy more than the economy can produce, no matter how much money we borrow or print.

**It is time we recognized that efforts to get something for nothing are already threatening the essential financial foundations of the most productive economic apparatus the world has even seen.**

### The Inflation Signal

The clearest signal that we have yielded to the temptation of trying to get something for nothing is the widespread fear of inflation. Inflation results when we try to get out of the economy more than we put in, whether the attempt takes the form of the tremendous pressure on available resources characteristic of war periods, excessive wage demands, unjustified price increases, or vast expansion of the money and credit supply on the theory that this can help us buy more. Inflation strikes directly at the most fundamental financial essential for orderly economic production and growth — a stable currency people can trust.

*We have already had too much inflation for the health of the dollar,* though our record on inflation is better than that of most other nations. The common practice is to gauge the value of today's dollar in terms of the value of the 1939 dollar. *With the 1939 dollar taken as equal to 100 cents, today's 1959 dollar is worth 48 cents.* If we were to go back before the first World War and take the 1913 dollar as worth 100 cents, the value of today's dollar falls to only 34 cents.

This record is nothing to be proud of but, as the chart shows, the major declines in the value of the dollar have been associated with wars. It is not necessary to endorse all of our policies in those periods to admit that in considerable degree declines in the value of the dollar were an inevitable result of wartime pressures. In a sense, the wartime losses in the value of money were part of the price we paid for freedom.

*What is alarming foreigners and sophisticated men of affairs here at present is the rapid spread of doctrines that would make inflation a regular and normal part of our peacetime life.* One example is the idea that it is shortage of money, not excess, which produces price inflation. Thus, Leon J. Keyserling, former chairman of President Truman's Council of Economic Advisers, told the Congressional Joint Economic Committee in March that it is not easy money but tight money that "contributes to inflation."

Mr. Keyserling's idea is that inflation develops when the economy is moving too slowly and that the way to stop inflation is to push up government spending, flood the economy with easy money and get a boom going. This sort of reasoning is unorthodox but not unprecedented. At one point in the great German inflation which followed World War I, caused by tremendous expansion in the volume of paper money, there was a demand that money be printed and issued still faster on the ground that there was a shortage of currency due to the even steeper rise in prices. Of course the inflation was not stopped until its cause, the over-issue of currency, was corrected.

*Even more disturbing is the growing support for the idea that some degree of inflation is inevitable or even desirable.* A case in point is Professor Sumner Slichter's assertion that "inflation is an inescapable cost of a desirable *(Please turn to page 359)*

# HIGH-FLYING GLAMOUR STOCKS

**— Now losing Their Steam — and Why?**

**By Walter Untermeyer**

IN a part of the ocean near the equator lies a region abounding in squalls and calms, and light, baffling winds. Known as the Doldrums, it was an area assiduously avoided in the earlier days of sailing vessels. Often the region was entered in error, and the ship's sails would hang limp and the crew would grow thirsty.

The stock market in many respects is like the ocean; there are areas where the trade winds blow profits and there are areas where changing industry conditions can cause a doldrum for the unwary investor.

There are many theories on how to invest, some old, some new—and most seem to have little practicality. One theory which seems to be currently popular places emphasis on those stocks which have outperformed the field, under the assumption that a market leader will continue to lead and that such a stock is a good buy on reaction. While followers of point and figure charts are usually only too willing to corroborate this theory, there obviously comes a point eventually when optimism runs rampant and the reaction turns into a rout.

**For Successful Investment**
**It's Timing and Value That Count**

The central point, then, in successful market investment is timing. It is a mistake to buy stocks which have run their course, and it is a mistake to buy stocks which represent value but are, nonetheless, presently lying dormant. *The secret lies in buying once a move is underway, and retaining commitments as long as price movements do not vastly outstrip real and foreseeable profits.* To buy once a move has matured, can be disastrous. For example, we quote from a letter received recently from a valued client:

Gentlemen:

I recently purchased the following stocks at the following prices: 50 Raytheon @ 66½
25 Thiokol @ 66½
10 Polaroid @ 144

These stocks have taken quite a nose dive. Also I am very much concerned with what happened to Raytheon. Would you suggest holding it or taking a loss and getting out of it.

Please advise me at once. You can send me a telegram collect if it is urgent that I sell immediately. Thanking you for your prompt attention in this matter, I am, etc.

The gentleman concerned laid out $6427 for these choices, an investment that at current price levels has declined in value almost 20% to $5440.25 in a relatively short period of time.

### Over-Ripe Fruit

**Raytheon** is a typical example of changing market sentiment and a typical case of bad timing. While the stock is not particularly overpriced as electronic issues go, selling around 15 times estimated 1959 earnings of $4.00 versus a 10 year average P/E ratio of 10.5, Raytheon became a victim of loss of sponsorship when it was removed from most recommended lists not long ago, and it appears that the stock's spectacular upward move may be topping.

**Polaroid** is another growth stock which has always sold at an exorbitant price-earnings ratio. Although the company's earnings have more than doubled every two years since 1951, there obviously comes a time when enough is enough. In 1956 the stock sold at around 25 times earnings on the basis of average yearly price and year-end earnings; by 1957 the P/E ratio was up to 29, and this year, with 1958 earnings reported around two dollars, Polaroid is selling at 68 times 1958 results or about 50 times estimated 1959 earnings of near $2.50. At one point when the stock hit a peak of 145¾, the price-earnings ratio was up to a whopping 58 times estimated year-end results.

The same general factors are present in the case of **Thiokol,** now selling 30 to 35 times anticipated results. Great dangers are inherent in analytical neglect of earnings, and when one does neglect such positive measurements, analysis enters the realm of fortune telling and trying to guess what P/E ratio the public might be willing to pay for an issue. And, obviously, when the earnings multiplier becomes so high, a fairly small difference in the earnings picture can cause considerably wide movements in price even assuming that the multiplier remains constant.

### Electronics Group

A look at the **Electronics Group** points up the seriousness of the situation. In July of 1958 when the electronics issues first began to really move as a group, the industry's price as measured by Standard & Poors group index taken as a percentage of the price of the Dow Jones Averages was only 70% and the P/E as a percent of the price earnings ratio of the Averages was merely 84%; the group appeared reasonably priced and seemed to represent good value. Today, however, the price of the *electronics stocks relative to the Averages has risen to 118% and the P/E on the same basis has climbed to 120%;* and, as the unfortunate investor quoted above probably realizes, the cream seems to be off the top of the move.

Buying these electronics issues, or any other issues for that matter, with the possible exception of the sounder investment grade stocks, at any point other than the beginning of a move becomes purely a matter of speculation on market psychology and some investors will inevitably be burned. Our solution to the problem of how to avoid losses in this category of stock is to *avoid new purchases after the P/E ratio has risen to unrational levels based on readily visible future profit potential.* Steady profits is saner fare for making money in the market than some astronomical profits followed by a few heavy losses.

**Pertinent Statistics on**

| | Price Range | 1955 Net Earnings Per Share | Average Price-Earnings Ratio * |
|---|---|---|---|
| **AIR LINES:** | | | |
| American Airlines | 29⅛-20⅝ | $2.32 | 10.7 |
| Eastern Air Lines | 58 -35¼ | 5.32 | 8.8 |
| Northwest Airlines | 26⅛-16⅜ | 1.80 | 11.7 |
| United Air Lines | 49½-34¼ | 3.36 | 12.5 |
| **ALUMINIUM:** | | | |
| Aluminium Ltd. | 39½-24 | 1.61 | 19.8 |
| Aluminum Co. of Amer. | 88 -55¼ | 4.18 | 17.2 |
| Kaiser Alum. & Chem. | 43⅝-28½ | 2.87 | 12.5 |
| Reynolds Metals | 60 -45 | 3.41 | 15.4 |
| **DRUGS:** | | | |
| Bristol Myers | 34⅜-28¼ | 2.98 | 10.5 |
| Merck & Co. | 30¾-20 | 1.55 | 16.7 |
| Parke Davis & Co. | 17 -11⅜ | .77 | 18.1 |
| **ELECTRONICS:** | | | |
| Raytheon Co. | 25¼-13⅞ | .45 | 43.3 |
| Texas Instruments | 16⅞-10⅛ | .50 | 27.0 |
| Zenith Radio | 28½-17¼ | 2.72 | 8.4 |
| **FOOD CHAINS:** | | | |
| Grand Union | 34½-27⅛ | 1.90 | 16.3 |
| Kroger Co. | 20 -12¾ | 1.29 | 13.1 |
| Winn-Dixie Stores | 27½-18½ | 1.12 | 20.5 |
| **TOBACCOS.** | | | |
| Lorillard (P.) Co. | 12½-20¼ | 1.04 | 15.8 |
| Philip Morris | 48⅝-37⅛ | 3.63 | 11.8 |
| Reynolds (R. J.) Tobacco | 27½-20 | 2.53 | 9.5 |
| **MISCELLANEOUS:** | | | |
| Brunswick-Balke-Collender Co. | 12 - 8¼ | .95 | 22.1 |
| Eastman Kodak | 43⅞-33½ | 2.33 | 16.5 |
| Polaroid Co. | 27½-14¼ | .64 | 32.8 |
| Thiokol Chemical | 8¾- 5 | .19 | 36.8 |

*—Price-earnings ratio based on average price per year.

### Pie in the Sky

Examining other group moves in recent years proves the validity of these arguments. The **Airlines** had their big move as a group from June of 1954 to March of 1955, rising some 50% from a relative price of 98% of the Dow to 140% of the Dow, a move that would tend to indicate that the rise was largely due to a favorable change in investor attitude; for during the period the P/E ratio climbed on a relative basis from only 80% to 92% of the averages. "Few industries can match the excitement and romance of air transportation" began one rather extensive report at the time. The write-up went on to discuss the future of transportation and

## on Fast-Moving Issues

| 1956 | | | 1957 | | | 1958 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Price Range | Net Earnings Per Share | Average Price-Earnings Ratio * | Price Range | Net Earnings Per Share | Average Price-Earnings Ratio * | Price Range | Net Earnings Per Share | Average Price-Earnings Ratio * | 1959 Price Range | 1959 Recent Price |
| 26¼-22 | $2.40 | 10.0 | 24½-14 | $1.31 | 14.7 | 25¾-14⅜ | $1.94 | 10.3 | 33⅜-24⅛ | 28 |
| 57¼-43⅛ | 5.17 | 9.6 | 51⅜-27 | 3.21 | 12.1 | 38⅛-29⅛ | 2.34 | 10.0 | 46⅛-33⅞ | 39 |
| 19⅜-14 | 2.18 | 7.5 | 17⅝- 9⅜ | 3.56 | 3.8 | 33⅛-10⅛ | 4.06 | 5.3 | 46⅛-30¼ | 38 |
| 44¾-35⅞ | 4.57 | 8.7 | 43¼-18⅛ | 2.28 | 14.5 | 40⅜-30⅞ | 3.88 | 18.4 | 40⅞-30⅞ | 38 |
| | | | | | | | | | | |
| 50 -33⅜ | 1.85 | 22.6 | 53⅛-27½ | 1.37 | 22.2 | 38⅜-26 | .74 | 43.2 | 33⅜-27 | 29 |
| 133½-82 | 4.24 | 25.4 | 102 -59¾ | 3.55 | 22.8 | 96½-60⅜ | 1.96 | 40.0 | 93¾-77⅛ | 90 |
| 70¼-34⅞ | 2.72 | 19.3 | 46¾-22 | 1.59 | 24.8 | 47¾-23 | 1.43 | 24.8 | 49¼-37 | 49 |
| 85 -45⅛ | 3.93 | 16.5 | 65¼-32⅝ | 3.28 | 14.9 | 78⅛-32¼ | 3.25 | 16.9 | 91⅛-65½ | 87 |
| | | | | | | | | | | |
| 44¼-28⅜ | 3.55 | 10.4 | 61¼-41 | 4.07 | 12.5 | 78 -53⅛ | 4.38 | 15.0 | 115⅞-68 | 113 |
| 35 -24⅝ | 1.92 | 18.2 | 44½-29½ | 2.20 | 17.0 | 83⅜-36¾ | 2.53 | 23.7 | 91¾-67 | 83 |
| 19⅛-13¼ | 1.18 | 13.5 | 21 -14⅛ | 1.89 | 9.2 | 45⅛-17⅝ | 1.89 | 16.6 | 45⅛-36⅜ | 40 |
| | | | | | | | | | | |
| 19½-13 | .23 | 73.9 | 23¾-16⅜ | 1.70 | 11.6 | 69-21½ | 3.08 | 14.9 | 73⅜-55 | 58 |
| 18⅜-11⅝ | .72 | 20.8 | 31½-15⅞ | 1.11 | 21.6 | 86 -26¾ | 1.84 | 30.6 | 131 -61¼ | 115 |
| 28¼-20⅛ | 2.09 | 11.5 | 25¼-18¼ | 2.76 | 7.9 | 69¼-20⅛ | 4.10 | 10.9 | 117¾-92½ | 115 |
| | | | | | | | | | | |
| 36½-29½ | 2.43 | 13.6 | 37⅜-25½ | 2.55 | 12.6 | 52½-33⅜ | 2.37 | 18.1 | 56⅝-46½ | 51 |
| 24¾-17⅜ | 1.47 | 14.4 | 21½-11 | 1.70 | 10.1 | 33¼-20⅜ | 1.76 | 21.0 | 34⅜-27⅞ | 28 |
| 25¾-20 | 1.68 | 13.8 | 29¼-18¼ | 1.71 | 14.0 | 49¼-26¼ | 1.95 | 19.2 | 45¼-40¼ | 43 |
| | | | | | | | | | | |
| 10½- 7½ | .72 | 11.6 | 17 - 7¾ | 1.90 | 4.7 | 44½-16⅛ | 4.02 | 7.5 | 43½-38¼ | 39 |
| 47 -39½ | 4.06 | 10.7 | 47 -38⅝ | 4.50 | 9.5 | 62 -43 | 4.90 | 10.7 | 65½-59 | 59 |
| 29 -24½ | 2.96 | 9.0 | 33⅛-26 | 3.08 | 9.7 | 45⅜-32 | 3.80 | 10.1 | 57⅞-48 | 51 |
| | | | | | | | | | | |
| 13½- 9⅜ | 2.30 | 5.0 | 27⅛-18¾ | 4.15 | 5.6 | 58¼-24⅛ | 6.40 | 6.5 | 99⅜-43¾ | 92 |
| 50⅜-37¾ | 2.45 | 17.9 | 57½-40¾ | 2.55 | 19.1 | 74 -48⅝ | 2.57 | 23.9 | 91¼-75 | 83 |
| 34¾-15½ | .98 | 25.5 | 53¼-30 | 1.44 | 29.1 | 109⅝-43½ | 1.86 | 40.2 | 145¾-96¼ | 127 |
| 16½- 7⅜ | .36 | 33.3 | 23⅜-13⅜ | .49 | 33.6 | 54¾-29¾ | .68 | 61.7 | 72 -47⅛ | 56 |

the increased passenger volume that would result from lower fares and the greater appeal to the mass market. While these prophesies eventually proved true, the weakness in the situation lay in the economics of the industry.

Optimism about future earnings growth lay in the fact that the individual companies had a heavy cash flow due to the fact that airplanes were being depreciated over a 5 to 7 year period. The actual life of a plane was considerably longer, however, and the companies found that for several years after the war planes could be sold for considerably more than their written-down book value. It was widely believed that eventually the airlines would reach a stage where the benefits of high depreciation could be translated into higher earnings.

What actually occurred, however, was a different matter; the companies found that the second hand plane market became glutted and prices fell as a consequence. Furthermore, new equipment had to be bought in greater quantity and the bright new planes became much more expensive. It has taken a couple of years, but now the investing public seems to have realized that it will be some time before substantial earnings power develops. The investor optimism which failed to see through the glamorous haze has been punctured, and the price of the stocks in the group have come back to reality.

### The Wonder of Aluminum

The **Aluminum** stocks had their big rise from December of 1955 until peaking out in June of 1956, during which time the price of the group rose from 170% of the price of the Dow to the peak in June of 330%. During this period the relative P/E ratio rose only from 120% to 152% so here is another instance of a group selling on sentiment rather than facts; ultimately those who bought the aluminum stocks on romance rather than earnings reality came to grief.

One serious study of the industry at the beginning of the move stressed the huge amount of aluminum that would be used in the automobile business. Specifically, it was suggested that aluminum usage would grow from 50 pounds per car to 300 pounds per car, an amount sufficient to absorb the entire production of the industry. It was further suggested that aluminum would usurp much of the market for copper in communications and utility applications due to the metal's greater capacity per pound as a conductor. The report went on to describe in rosy terms the anticipated demands for aluminum in construction and container fields due to the weight and non-corrosive properties of the material.

The upshot of these optimistic notions was that

the aluminum market dwindled because of the Government's decision to limit stockpiling, due to reduced demands industrially, and because many of the new uses did not develop. In addition, the industry had increased its capacity through both the addition of new facilities as well as the entrance of new factors such as Anaconda into the field. Finally, world prices sagged when Russia added her production to the available supply causing price cutting in the market. Although the future for aluminum is really bright, present prices for aluminum shares represent a more realistic appraisal of the fact that some years must elapse before this potential can be translated into earnings and, ultimately, dividends.

### Food and Fancy

A group that had a sharp rise in the period running from January 1957 to a peak that appeared several months ago was the **Food Chains.** During this time the price of the group rose from 72% of the Dow to 110% of the Dow, while the relative P/E ratio rose from 73% of the averages to 98%. Enthusiasm for the group developed in the midst of the recession when the theory was advanced that the industry was immune to the hardships of a slackening industrial pace. The idea was advanced that the constant modernization of plant through opening of new, more efficient and larger units, coupled with the closing of less profitable stores would result in constantly widening profit margins in an industry with historically low margins of profit.

Given this overall plan, it seemed obvious that the larger and more solidly financed chains were in a better position to open new units. It was actually believed that the newer chains and the older chains with the smallest proportion of efficient king-sized units were in the best position to grow because in the case of the latter, profit margins could only improve while in the case of the newer chains the stationary base was lower. Enthusiasm developed to the extent that *stocks which had sold historically at a nominal 10-14 times earnings were accorded growth stock multiples and began selling at P/E ratios running anywhere from 15-20 times earnings.* As the stocks peaked out, many investors suffered from the disenchantment that often arises when hopes fly high, wide and handsome.

First, it was discovered that in some cases Food Chains are not 100% defensive and certain chains concentrated in Detroit or other areas hard hit by the recession found sales per store dropping off. Furthermore, anti-trust suits were filed against some store chains and in many cases the local grocer "wised-up" and converted his conventional market into a super-market operation. There does not appear to be any real challenge to the supremacy of the chain operation in coming years, however, but it is evident that when stocks run to a point where they outdistance reasonable value based on normal prospects, correction is both normal and logical.

### Where Values vs Romance Pays Off

The **Tobacco** stocks had their rise when the group climbed from 17% of the price of Dow Industrial Averages to 27%, bettering the performance of the Averages by some 50% in the same period, from July 1957 to May 1958. During the same interval the relative price earnings ratio of the group rose from 70% of the P/E ratio of the Dow to 80%. *The group is still selling on a relatively low earnings multiple relative to the historic P/E, and is a good example of a group which had a substantial move based on value rather than romance.* It may be said that the current low earnings multiplier of the group in relation to the overall market may be based on a changed investment status due to the risk from periodic health reports which could tend to curtail world smoking habits; but there is an element of risk in any business, and it is our feeling that the tobacco group's market performance still fails to reflect fully the apparent underlying value.

The **Drug** Industry started its rise in December of 1955 being priced then at 36% of the Dow on a relative basis, and is still in an uptrend, currently selling at around 70% of the Averages. Interestingly enough, the Drug group is still selling at the same relative P/E at which it sold at the beginning of the move, which would tend to indicate that despite the wonderful potential of wonder drugs in the world of tomorrow, the drug stocks are not yet overvalued because earnings on a relative basis have kept pace with rising stock prices.

### The Rocket That Fizzled

The Uranium stocks are another example of a group which blasted-off more on hope than on careful thought and analysis. At the time of the move, the uranium companies looked like a lead pipe cinch because all the leading producers had contacts with either the Canadian of U. S. Governments which guaranteed to take their entire production up to the years 1962, 1963, or 1964. By this time, it was assumed that facilities would be fully depreciated and that even if Government demand disappeared at that time, a somewhat unlikely eventuality, stockholders would have cash in the till equivalent to their investment. In addition, it was said at the time that if and when government buying did cease, this would merely open the doors wider to a rush of purchasing by uranium-hungry private enterprises which were waiting anxiously to cross the threshhold into the great new Atomic Age.

Eventually, however, more sober heads prevailed and it was realized that the Governments' needs were rather limited and that industrial usage in any large amounts would not become widespread for some time due to the fact that machines capable of harnassing atomic power were nowhere near full development. The basic picture is really unchanged however. There will be, in coming years, an ever increasing demand for uranium — but it may be decades before the payoff comes in dollars and cents for the producers. Now that this fact has been realized and accepted, most of the uranium stocks are selling at P/E ratios which make them more reasonably valued in the current market for the patient investor. Uranium stocks were most "fashionable" from early 1955 to about mid-1956 then fizzled out.

### Conclusion

In conclusion, it appears that stocks are, to a certain degree, a mer- *(Please turn to page 362)*

SELF-GOVERNING MEMBERS of the Commonwealth.

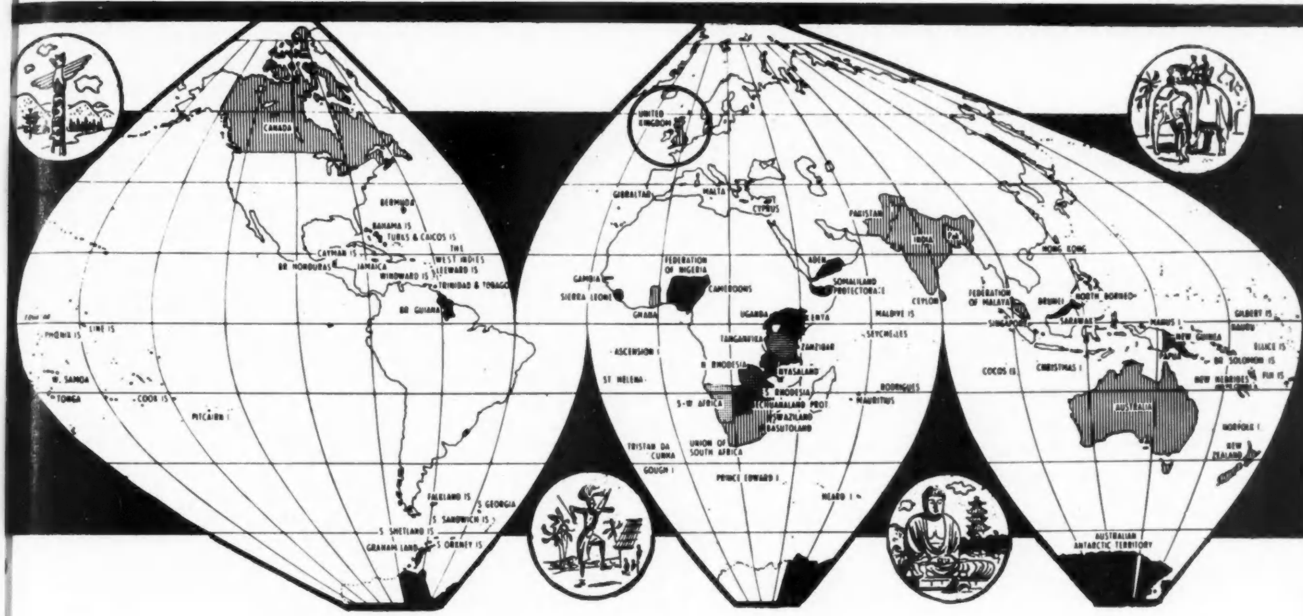
THE FEDERATION OF RHODESIA AND NYASALAND, which came into being in 1953, comprises Northern Rhodesia and Nyasaland, which remain Protectorates, and Southern Rhodesia, whose status as a self-governing Colony, with certain qualifications, remains unchanged.

SOUTH WEST AFRICA. Territory under Mandate assumed by the Union of South Africa on 17th December, 1920.

DEPENDENCIES of Members of the Commonwealth, including Protectorates and Protected States. Barbados, Jamaica, the Leeward Islands (except the Virgin Islands), Trinidad and Tobago and the Windward Islands are federated in The West Indies.

TRUST TERRITORIES administered by Members of the Commonwealth under trusteeship agreements with the United Nations.

*Some of the very small or practically uninhabited islands have been omitted.*




# The Spectacular Rise of Great Britain

## — A challenge to our markets and financial leadership

**By John A. Scali**

- **Sweat and austerity are paying off in rebuilding Britain's exports and gold balances**
- **Why England expects to hold a lion's share of America's small car market — despite Big Three entries**
- **British-Soviet trade negotiations — and the uneasiness they have aroused**

TRADE-WISE Britain is grabbing a bigger and bigger share of the American market with a spurt in exports that has amazed even the most conservative British merchants. The booming sales of British products in the first quarter of 1959, coming atop an amazing 15 per cent increase in sales during 1958, is causing some American Government officials to sit up and take notice.

Britain's resurgence comes at a time when American exports are slumping. Last year American shipments overseas fell off nearly 15 per cent from the 1957 total. Trade policy makers in the Eisenhower administration aren't too worried about 1958's backslide. They point out that 1957 was an abnormal year with the total value of exports swollen by emergency oil shipments to Western Europe after the Suez Canal was blocked. But they show signs of being disturbed that the figures for 1959 show the decline in American exports is continuing, at a time when competition with the British, West Germans, the Japanese and others is getting hotter and hotter. In the first four months of this year, American exports are lagging more than 300 million dollars behind the nearly 6 billion dollar total recorded last year. At this rate the final figures would show a drop of more than a billion dollars with no solid sign of a pickup in 1960.

Government trade experts caution against undue excitement over long-range prospects. There is no reason to believe, they say, that American industry —the world's most efficient and versatile—won't be able to turn out its products at a low enough cost to compete in the world's commercial markets. Part of this advice reflects a fear that a clamor for higher tariffs may be whipped up in Congress by American manufacturers seeking to protect their traditional

domestic market. After a sober examination of all factors, the Administration's commercial policy chiefs concluded there was no real proof thus far that American manufacturers, faced with higher labor costs than foreign competitors, have priced themselves out of the market. But, just the same, these authorities are scanning the newest trade statistics with some concern to make sure some new, potentially explosive commercial trend has not developed.

### Increased British Trade a Positive Factor

So far, these authorities are applauding rather than viewing with alarm the remarkable boom in British sales on the American market. This is all to the good, they say, because a robust, healthy British economy is vital to the over-all economic health of Western Europe and the Free World. These officials—and the British—have many reasons to applaud. For instance: in March of this year—for the first time since 1865—the British sold more to the United States than they bought. In this record-breaking month, they exported nearly 79 million dollars worth of products, especially automobiles, machinery and whiskey. In the same 31-day period, their American imports amounted to about 69 million dollars.

**U.K. Trade by Area in 1958**
**(Percentages)**

| | U.K. Imports | Total U.K. Exports |
|---|---|---|
| Sterling Area | 37.9% | 44.1% |
| Western Europe | 25.5% | 26.1% |
| U.S.A. | 9.3% | 8.7% |
| Canada | 8.2% | 5.8% |
| Soviet Union | 1.6% | 1.5% |
| China | 0.5% | 0.8% |
| Rest of World | 17.0% | 13.0% |

By any yardstick, this is a near-sensational showing, because added to the figures for January and February, it proves that British exports have jumped an amazing 22 per cent over 1958's corresponding period. And to understand how this gladdens the heart of British exporters, it should be remembered that 1958 was one of the best years in history for them. Exports to the United States leaped a highly satisfactory 15 per cent, offsetting most of the lag caused by the recession in sales to other parts of the world. Even then, Britain's over-all export volume to all countries was only two per cent below the previous year. More importantly, the average export price of British goods fell only one per cent, while the price the British paid for their imports fell eight per cent.

### Has London Displaced New York as World Financial Center?

All this added up to another significant record for the once hard-pressed British. In 1958, for the first time since the end of the war—and probably for many years before—there was a surplus on visible trade. This figure was an impressive 436 million dollars, compared with a deficit in 1957 of 162 million dollars. Prime Minister Harold Macmillan's government in its annual economic survey in April termed this "a striking result." In addition, to this trading surplus, the British chalked up their customary large gain in invisible transactions—such as shipping—bringing the net surplus in the balance of payments account to nearly one billion, 300 million dollars.

This in turn pushed Britain's gold and dollar reserves, once a cause of tremendous worry, up to nearly 10 billion dollars—their highest point in nine years. This is nearly 2 billion higher than the level the government considers "comfortable" for Britain's financial well-being. As a matter of fact, Britain's gold and dollar reserves rose so satisfactorily, that the government was able to repay installments totalling 520 million dollars on loans from the United States and Canada without any financial twinges.

Britain's prospects for 1959 appear very bright. Another big surplus in the balance of payments seems certain along with a further rise in reserves, an increase in industrial production and only slight increases in prices and wages. The British themselves summed up their prospects with this key paragraph in their "Economic Survey 1959," a document usually hedged with the most restrained comment:

> "At the beginning of 1959, the United Kingdom economy is undoubtedly much stronger than in previous years. Demand and production are rising and the economy can afford to expand more than in the past three years. Subject to the need to maintain a strong external position and the continuance of the recent record of price stability at home, the government's policy is to do all it can to foster this expansion."

### New Ease on Import Restrictions

The announcement on May 28 from London that the Government had lifted restriction on some forty-five groups of consumers goods from dollar areas, was another sign of healthier economic conditions. The quota on American automobiles has been increased approximately 150 per cent, and a wide range of other products is listed to benefit from this relaxation on import curbs. To name a few:—a wide variety of canned and frozen foods, paints, soaps and detergents, plastics and domestic woodware and furniture. Of special interest, is the inclusion of television and radar apparatus, aero engines, boats, light aircraft and railroad equipment.

This action by the Board of Trade came as no surprise, for there was little point in Britain's discriminating against dollar imports now that her currency had been made convertible. Both Canada and the United States should benefit, although no great increase in actual volume of trade is anticipated by Britain as yet . . . it is the pattern of her imports that is likely to change in the coming months.

To keep our perspective clear however, it must be noted that Britain's economy has been increasing at a fairly slow rate compared with the West Germans, the Japanese, France and Italy. The average increase in the gross national product per year has been about 4 per cent from 1948 to 1957. It fell off to about 2½ per cent last year because of the world-

wide recession. But this year, partly because the Government is taking some of the brakes off domestic demand, an increase of up to 5 per cent would not surprise many experts.

**British Motor invades American Markets**

Spearheading the added British impact on the American market is a single product—the automobile. Even as the West Germans are selling record numbers of their small economical cars to American buyers, the British are doing the same — with even better results. Two-thirds of the increase in exports to the United States was accounted for by British automobiles. Last year, sales leaped a sensational 60 per cent, with no signs that the demand of American customers for more is beginning to slacken.

Automobiles have now moved far ahead of Britain's traditional biggest money earner—whiskey — with prospects that they will earn nearly three times as much as whiskey during 1959. In 1958, the British shipped 152,541 cars to American distributors, bringing in a total of 176 million dollars for the British Treasury. In 1957, the British exported about 90,000 to American buyers. New figures available for the month of March show that nearly 19 million dollars in cars alone were sold in that period. This was about twice the total value of machinery the British exported in the same month.

The British regard as confidential the sales by make and model, but trade sources report that the biggest sellers in order are: English Ford, Hillman, The General Motors Vauxhall, M.G. and Triumph. The English automobile manufacturer, despite his spurt in sales, is viewing the long-range future with some concern. He sees a cloud gathering on the horizon, namely, the decision by the American "Big Three"—Ford, General Motors and Chrysler, to introduce a small, economy model car of their own for the 1960 selling year.

Despite this, most British auto makers are fairly confident this will not drastically cut down the demand for their products on the American market. The smaller foreign car, especially the British version with its rakish lines and high quality workmanship, is now pretty much a part of the American way of living, they believe. There's a snob appeal in owning a foreign automobile that won't be easily dimmed. Foreign auto makers have skillfully exploited this in their advertising, and can be expected to step up their stress on this when Detroit auto makers rush their models into the showrooms.

One of the reasons for the confidence that foreign auto sales will continue to boom is the unspoken belief that somehow the Detroit auto factories really won't turn out a model that is actually competitive. Many Britishers believe the American version, when it is finally unveiled, will be larger, more expensive and not as handsome as their own product.

### ECONOMIC DEVELOPMENTS IN GREAT BRITAIN

**Balance of Payments Surplus:** The U.K. earned a a Balance of Payments surplus on current account of £455 million ($1,274 million) during 1958 compared with one of £263 million ($736 million) in 1957. The main change was in visible trade which moved from a deficit of £58 million ($162 million) in 1957 to a surplus of £120 million ($336 million) last year. Invisible earnings at £335 million ($939 million) were £14 million ($39 million) up on the previous year.

**Gold and Foreign Currency Reserves:** The sterling area's gold and foreign exchange reserves dropped by £6 million ($17 million) to £1,121 million ($3,139 million) during March 1959. This fall, the first since September 1957, was attributable to the repayment of $200 million to the International Monetary Fund which was partly offset by a special receipt of £34.5 million ($97 million) under the support costs agreement with Germany and the surplus on ordinary transactions.

**Industrial Production:** The all-industries index of industrial production (1954=100) for February is provisionally estimated at 107 after making adjustments for seasonal factors, indicating output was a little lower than in the previous three months and about 1 per cent to 1½ per cent below that of February last year. The result was partly due to an influenza epidemic but is nevertheless rather disappointing, in view of the fact that output a year ago was 108.

**Tax Relief at Last!**

The certainty of British elections sometime this fall, probably in October, plays a big role in the status of Britain's economy at the present time. With the voters in mind, Prime Minister Macmillan's Government unveiled a Budget on April 7 which promises a 300 million dollar surplus at the end of the year—and some 826 million dollars in tax relief for the heavily taxed Britisher.

The tax cuts cover three categories: Income Taxes — reduced from 42½ to 38¾ per cent by standard rate; Corporation Taxes—cut 10 per cent from the previous all-time high of 48¾ per cent; and Purchase Taxes—lowered from 10 to 2½ per cent on a wide range of consumer items, such as cars, television sets, refrigerators, jewelry, hats, gloves and shoes.

The British are very sensitive to American criticism of these tax cuts at a time when the heavily-taxed American won't enjoy a similar break . . . partly because his Government is continuing to pour out an average of 4 billion dollars a year to help friendly foreign countries. In answer, they point out that whereas Britain did receive huge amounts of American foreign aid in the past, at present it is receiving no such aid. Further, the British claim that their people, even with the tax cuts, will be paying 33 per cent of their income into taxes, as compared with 27 per cent for the American people —though this would certainly be challenged by our own citizens. British economists arrive at these figures by including all the so-called "indirect taxes" in the British total. It is this feature which they can claim as the big difference between the British and American economies.

Regardless of explanations, there is no question that the average *(Please turn to page 362)*

# Inside Washington

By "VERITAS"

**KEFAUVER BILL** to create a Federal department of Cabinet rank, to be devoted to promoting the interests of the consumer, is gaining status in Congress. Already 24 Senators have affixed their names as co-sponsors, which means a minimum of 24 votes for the project even before it is calendared for committee consideration. The list is an impressive one: for each Humphrey, Douglas and Morse, there is a Lausche, a Wiley and a Keating — all shades of economic thinking are represented. Labor, business, and agriculture have Cabinet-level departments watching their interests. Kefauver contends the consumer, the aged, the unorganized worker, the salaried worker likewise are entitled to a strong "voice".

> **WASHINGTON SEES:**
>
> The democratic wire-pullers deny they are purposely doing nothing about the Senate-authorized 60-day bipartisan investigation of unemployment, but their inaction speaks louder than their denials.
>
> This was to be Senator Lyndon Johnson's answer to the demand that the causes of joblessness be isolated and the cures developed. He introduced his 60-day study plan with dramatic flourish, ostentatiously arranged things so the findings could not be rejected on the grounds of political partisanship. And then he rammed the resolution through with Johnsonian finesse, reflected in the fact that there wasn't a dissenting vote.
>
> The action moved then to the House side. The resolution went to the desk of the Senator's fellow Texan, Speaker Sam Rayburn. And there it has reclined for almost one-half of the contemplated two months of study. Other pieces of Congressional business have had a similar fate, and one may ask therefore why inaction on this proposition is noteworthy. The answer is that Johnson, et als, have run into coalition opposition to some of their programs, several of which have been pared down, one of which met a veto which the demmies couldn't muster votes to override. If a study of unemployment were to be made now, opposers of housing, aid to schools, relief of depressed areas could delay action by demanding postponement pending completion of the 60-day inquiry. That could be dangerously close to recess date.

**COMPLAINTS** by consumers would be received by the agency Kefauver envisions, but that is a less-important side of the project. The new bureau would make continuing economic studies and would inquire into production and distribution; it would study price levels, quality and suitability of goods. But, the Senator assures, the office would not set itself up as an arbiter of the respective merits of goods produced by rival companies. Another approach is suggested in the Javits (N. Y.) Bill to create a bipartisan Senate committee to investigate economic problems of direct concern to consumers: sales and excise taxes, brand names, restricted selection which may be traced to restraint of trade and monopolistic practices.

**WILEY BILL** to create a Hoover-type commission to lead the way to tax reform would be more enthusiastically received if the sponsor, the senior Senator from Wisconsin, would spell out his precise objectives and give some notion of the methods intended to be invoked. Like scores of resolutions which preceded it, the Wiley draft is all preamble and no law. It rings with familiar and oft-repeated language . . . "to make a top-to-bottom review of our tax structure and provide recommendations for plugging loopholes, ending inequities, eliminating unintended hardships and benefits, capturing escaping tax revenue." Like predecessor bills, it lacks specifics.

**COMMERCE DEPARTMENT** is studying the move by American companies to set up branches in the European Economic Community. Between 1955 and 1957 an average of seven companies in this category was the annual experience of the Netherlands; last year, 23 American companies opened there. Names which have become familiar in the six nation market place include Underwood in Italy, Smith-Corona is Germany, du Pont in the Netherlands and Belgium, Chrysler in France, General Motors in Belgium, Container Corporation in Germany, Westinghouse International in France.

# As We Go To Press

**Gold mine for labor** is seen in the pending wage-hour law amendments. The heavy oratorical guns of union headquarters have been put in place before the Senate Committee hearing testimony and the bombardment is heavy and intense: there are 6 million persons employed in the retail trades, only a fraction of them organized. The initiation fees and the dues of millions of new members has AFL-CIO drooling with hopeful expectation. The retail industry operates on a small profit margin and accounts for about 50 per cent of the business failures. It is estimated that 1.5 million are part-time workers. The amendments would exempt employers doing less than $500,000 business annually but they compete in the same labor market as the "Ma and Pa" stores. If the hourly rate goes from $1 to $1.25, small operators say it will become uniform pay.

**Building trades wages** have zoomed over the past year, the Bureau of Labor Statistics finds. In January, the average hourly earnings of all workers in building construction amounted to $3.19 — up almost 4 per cent from one year ago. Because of the spreading use of long-term labor contracts, wage rates will continue to rise through the current calendar year. Over the past decade, the official reports show, wage rates have risen twice as rapidly as materials prices. Between 1949 and January 1959, average hourly earnings in building construction rose from $1.94 to $3.19 – a gain of 65 per cent. In the same period, the overall price of building materials went up 50 cent. Taken together, and including allowances for overhead costs, financing, taxes, and an adjustment for changes in productivity, the cost of constructing a given home has risen 33 per cent since 1949.

**Canada's Coal Industry** will be given a needed shot-in-the-arm by an increasing sheaf of orders from Japan. It began with an order for 10,000 tons. The mining towns of Western Canada have been in bad shape economically due to increasing unemployment and loss of markets. They presented their plight to Ottawa and negotiations for better markets in Japan began; prices had been the holdup. It will require more than expressions of encouragement from the Dominion Government to solve the problems. Suggested, and under favorable consideration is an increase from $4 to $5 in the export subsidy (that is the amount of difference between what the mines are asking and the Jap industrialists are willing to pay over a long term); and extension of seasonal unemployment insurance benefits through the summer months.

**Competition with coal** for fuel purposes is having a depressing effect on the industry on both sides of the International Border. More so to the north than in the United States, it is believed. Production in Alberta declined from 3.1 million tons in 1957 to 2.3 million tons in 1958. So long as there is the present large surplus of oil and natural gas trying to find a market and being sold almost at cost of production this situation will continue. Use of the "automatic fuels" has increased throughout Canada. That, plus the railroads trend to diesel engines, take a heavy toll in the coal economy. Hope is seen in increasing use of coal for electric power production. A similar pattern has come to light in the United States. Of a total coal consumption here in 1957, amounting to 414 million tons, 38 per cent was purchased by electric power utilities.

**Private Financing** will be sought by the steamship industry in amounts aggregating more than $1 billion in the next 10-15 years. The financial growth and strength of the privately-owned-steamship companies started this program. By the early

1970s, 15 steamship lines will replace 276 dry-cargo and passenger ships at a total cost to industry and Government of more than $3.4 billion. These vessels, plus 33 new ships built since World War 2, comprise the backbone of the U.S. Merchant Marine for defense and commerce. There are two chief reasons why the lines will reach out for financing from private sources in unprecedented amounts: The Government is encouraging private financing in lieu of funding from public monies previously available: new ships will cost four to five times as much as those to be replaced, due to inflation and design improvements. Treasury insurance of bonds may be sought.

**Litigation Follows Tax Rise,** especially in the business area. The more money a company must pay out the more likely it is to insist upon its rights of deduction and other statutory privileges. Since 1947, tax litigation involving Justice Department action has tripled. In dollar amounts the rise has been even more pronounced: back in 1947, only about $85 million was involved in all federal tax cases in District Courts and the Court of Claims; today the figure is in excess of $600 million.

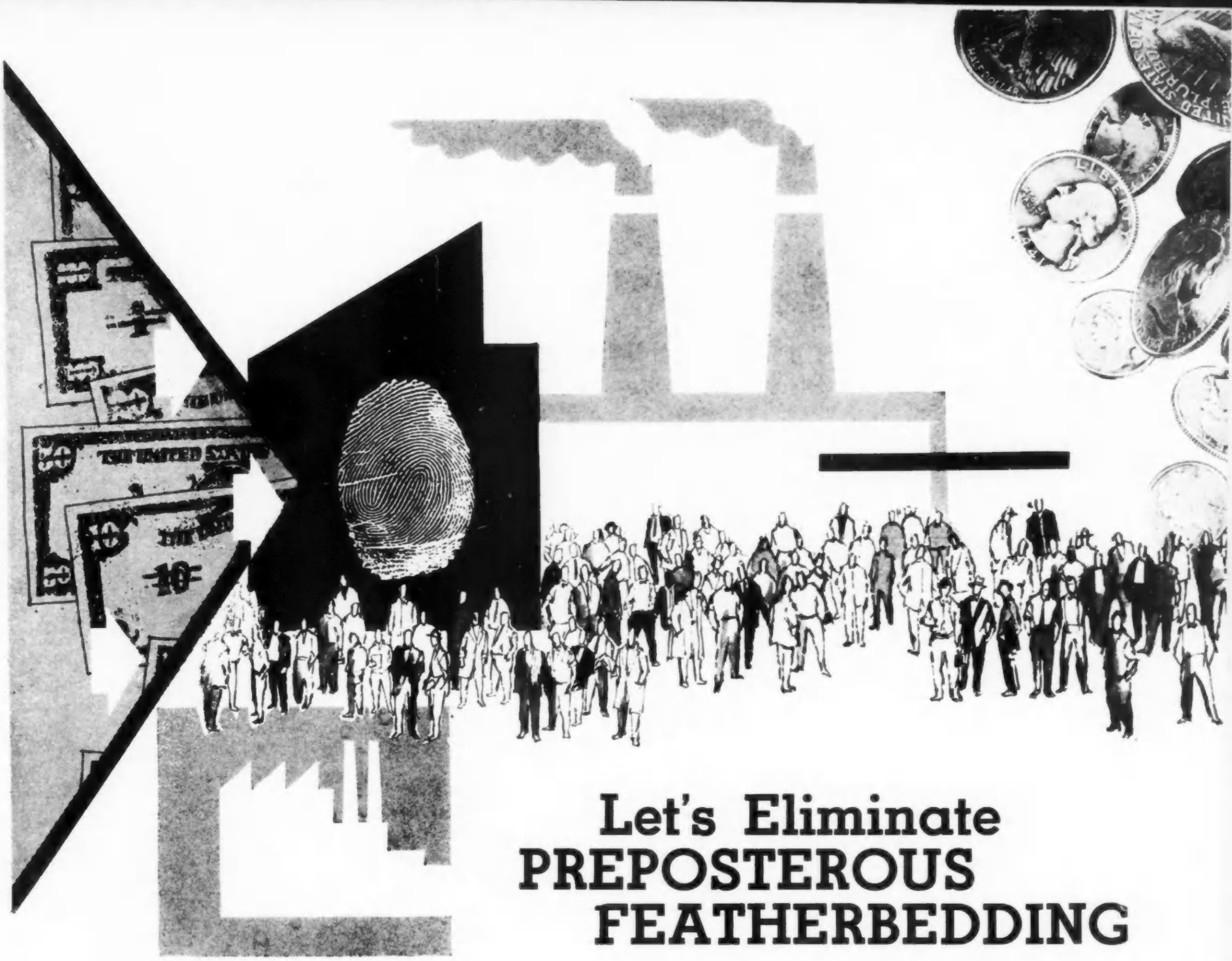
As of a recent date, a tabulation showed there were 16,000 cases pending in all the federal courts (including the Tax Court of the U.S.) which involved more than $1.6 billion or an average of almost $100,000 a case. The importance of this litigation from a Treasury income standpoint cannot be adequately measured alone in terms of cases or dollar amounts involved. The precedents set in many of the decisions controls the ultimate disposition of untold billions in the ordinary processes of revenue collection.

**Federal-Aid Highway** programs are on schedule, with $7 billion obligated in the three years of operation on the intercontinental grid. Money is "obligated" when construction contracts are advertised and when surveys and plans or right-of-way acquisitions are authorized. The enabling act passed by Congress contemplates spending of $25.625 billion through Fiscal Year 1969, on the interstate and defense highway system. But the law did not anticipate and provide for increased costs which arose as a result of inflation and labor demands. Result will be a deficit in the Highway Trust Fund beginning July 1 and continuing to June 30, 1963. The White House proposed to meet that problem and continue allocations of money on schedule, by increasing the Federal gasoline tax. As of this moment it appears another solution must be found: Congress is not in a mood to boost tax.

**White House vs. Congress** — Planned spending involved in the executive budget as opposed to the legislative programs differs to the tune of $14 billion dollars, on six non-defense bills alone. Clearly, enactment of any considerable part of the democrat-sponsored measures must mean more taxes, deficit financing, or sacrificing tax reductions for many years to come. The six spending measures are housing, civilian airport construction, area redevelopment, federal aid to education, community facilities, and water pollution control. The President proposed to spend $2,496 million on these fields over the next six years; the Congressional program adds to $16,335 million in the same period.

Except for aid to education program and parts of the housing layout, enactment of the "spender" version would not have an especially great impact on 1960 Fiscal Year expenditures. The time lag between making commitments and disbursing the funds account for that. The first year would see $2 billion spent. On an ever-increasing scale, annual payout would be $6 billion by the fourth year. Such an operation would serve to commit Congress and the Nation to a financial strait-jacket and seriously impair capacity to cope with arising emergencies in any way other than by aggravating the fiscal situation.

**Relations With Canada** are not improved by the United States policy of barring shipments of shrimp from Communist China to the Dominion to pass over American territory. The regulation on which this prohibition is based is intended to prevent the Red Government from gaining dollars through trade here. In the case of shrimp to Canada, its application lengthens the route, increases the price of shrimp in destination cities. But it deprives the Chinese of nothing at all. The legal basis of the ban is unquestioned. Neither is the diplomatic effect in doubt. It's bad.



# Let's Eliminate PREPOSTEROUS FEATHERBEDDING

## AS FIRST STEP TO LOWER LABOR COSTS

**By JAMES J. BUTLER**

- **Railroad featherbedding costs Nation fantastic sum of $500 million a year — responsible for serious cuts and dislocations in commuter and other services . . . altering basic relationships between States.**
- **Staggering price paid in featherbedding for Labor peace in the building industry . . . and new laws designed to deal with these oppressive practises.**
- **The added drain on Government mortgage money saddled with unjustified building costs—what it means in taxes to all of us.**
- **The flagrant and costly abuses in newspaper publishing, entertainment and other fields.**
- **What it means to all of us in low income/higher costs—taxes—and as investors.**

THE heavy hand of union featherbedding and other labor cost-zooming schemes wrings billions of dollars annually from business, industry, and the general public for work that is not performed, because it was never intended to be performed, and for manpower wasted through a pattern of thinly glossed-over payroll loadings.

Not all of it is illegal. *Some of the abuses are written into management-labor contracts. But that fact alone isn't a guarantee of legality because its purpose is more to buy labor peace than to concede propriety that keeps the exactions in operation.* One of the schemes fell before a Department of Justice proceeding last year: it was determined to be a violation of the antitrust laws. *One might think that success in that issue, which involved building tradesmen, would inspire more employers to assert their rights, the Government to move on additional fronts, and Congress to throw a protecting arm around the citizenry by strengthening the monopoly laws. None of these materialized, so the super tax collector which is featherbedding in its many forms, goes on, and expands.*

There still is time this year for Congress to legislate in this area of economic bludgeoning by trade unionists. The disposition to do so seems to be missing. One of the most serious manifestations of featherbedding is the work rules contract between railroads and their employees which expires this Fall. *Its terms border on the fantastic, but all of it is true—true to the extent of costing the nation the staggering sum of $500 million a year.* That means

## Variations In Construction Costs *

### (as of January 6, 1958)

| CITY | COST | CITY | COST | CITY | COST |
|---|---|---|---|---|---|
| **ZONE I** | | **ZONE III** | | **ZONE V** | |
| Albany, N. Y. | $11053 | Atlanta, Ga. | $ 9944 | Dallas, Texas | $ 9237 |
| Portland, Maine | 10235 | Birmingham, Ala. | 10287 | Denver, Colo. | 10914 |
| Boston, Mass. | 10506 | Columbia, S. C. | 9224 | Houston, Texas | 9631 |
| Buffalo, N. Y. | 12579 | Charlotte, N. C. | 9701 | Kansas City, Mo. | 10449 |
| Burlington, Vt. | 10746 | Knoxville, Tenn. | 9193L | Little Rock, Ala. | 10405 |
| Hartford, Conn. | 11310 | Louisville, Ky. | 11009 | New Orleans, La. | 11389 |
| Jamaica, N. Y. | 10232 | Memphis, Tenn. | 9391 | Oklahoma City, Okla. | 9222 |
| Manchester, N. H. | 9970 | Miami, Fla. | 11560 | St. Louis, Mo. | 11663 |
| Providence, R. I. | 10781 | Tampa, Fla. | 9853 | Topeka, Kansas | 10701 |
| **ZONE II** | | **ZONE IV** | | **ZONE VI** | |
| Baltimore, Md. | 11055 | Chicago, Ill. | 14007H | Boise, Idaho | 10882 |
| Camden, N. J. | 10201 | Cincinnati, Ohio | 11868 | Billings, Mont. | 11145 |
| Charleston, W. Va. | 12665 | Cleveland, Ohio | 13109 | Los Angeles, Calif. | 10388 |
| District of Columbia | 10298 | Des Moines, Iowa | 12178 | Phoenix, Arizona | 9464 |
| Newark, N. J. | 10498 | Detroit, Mich. | 11385 | Portland, Oreg. | 10687 |
| Philadelphia, Pa. | 10079 | Grand, Rapid, Mich. | 11376 | Reno, Nev. | 12715 |
| Pittsburgh, Pa. | 11731 | Indianapolis, Ind. | 11375 | Sacramento, Calif. | 10829 |
| Richmond, Va. | 10314 | Milwaukee, Wis. | 11900 | San Francisco, Calif. | 10947 |
| Wilmington, Del. | 10084 | Minneapolis, Minn. | 11378 | Seattle, Wash. | 10966 |

H—Highest Cost. L—Lowest Cost.

* The data are based on a survey by the Federal Housing Administration, on the basis of a one story frame dwelling of 1138 square feet without basement, containing three bedrooms, living room, dining space, kitchen and two bathrooms, one with tub and one with shower. The estimates do not include costs for heating, the lot or land development, seeding or sodding, planting, carrying charges during construction, financing, fire and hazard insurance, architectural services and marketing expense. Range, refrigerator and clothes washer are omitted. The estimates include costs for materials, labor subcontracts, public liability insurance, unemployment insurance, workmen's compensation insurance, social security tax, sales taxes, incidental job costs, overhead and profit.

10 per cent of all rail revenues and it adds a toll of 5 per cent to passenger and freight shipping costs and a minimum of 10 per cent to the railroads annual $5 billion payroll.

*The cost of useless crew positions on trains has been estimated at $300 million a year.* This includes pay for firemen who tend no fires on modern diesel locomotives, brakemen who handle no brakes on power brake-equipped freight trains.

Canada moved against similar abuse of union power last year. A Royal Commission conducted lengthy examination and ruled that firemen serve no useful purpose on diesel locomotives. It ruled that "their functions have either totally disappeared, or are a mere duplication of what is discharged by another or others."

Requirements for unneeded workers on the railroads do not always look for their force to the bargaining agreement products. Excess crew laws and regulations have been enacted in 23 states under the cloak of "safety rules."

The dictionaries define featherbedding as "requiring an employer to pay unneeded workmen, or to pay for unnecessary or duplicating jobs, or limiting the amount of work to be done in a day as a means of stretching work." The illustrations are legion, but a few stand out.

### As True of the Building Trades as of the Rails

In the only recent case of its kind in which the United States Government moved, the practice followed a pattern common to the building trades in several parts of the country. The legal theories supporting the position taken by the Department of Justice are as applicable in many other industries as they were found to be in this instance. If carried to their reasonable conclusion, these rules might well quash the featherbedding laws of many states; they simply would fall under the weight of unconstitutionality.

### The Government Acts

The facts, and the law, of the antitrust action against Local 27, Brotherhood of Painters, Decorators, and Paperhangers of Chicago, support that statement. The Chicago union and the Hamilton Glass Company were charged in a civil antitrust action with engaging in a combination and conspiracy in unreasonable restraint of trade, in violation of Section 1 of the Sherman Act. The suit later was dismissed as to Hamilton Glass Company. The company together with others cited glazing contractors engaged in the business of furnishing and installing flat glass in the City of Chicago. The complaint set out that the glazing union, backed by the supplier and contractors, demanded that glazing (installation of glass panes in window and door frames) be performed at the site. To enforce this union ukase, money was exacted by the union from builders and general contractors who used pre-glazed products. The effect of this, said the government's bill of particulars, was to deny to the public the benefits of cost savings in the use of pre-glazed products.

Pre-glazed sash is defined in the complaint as consisting of windows and doors in which the glass is set and glazed in factories rather than on the construction job site. Other pre-glazed products are medicine cabinets, showcases, shower doors, and similar products. Much of the factory-prepared

## RAILROAD LABOR FEATHERBEDDING PRACTICES

► **A 7-hour run from Minneapolis to Chicago requires three engine crews. This costs the railroad, under the 100-mile basic-day wage rule, *four basic days wages for only 8½ hours work.***

► ***The engineer who pilots a passenger train between New York City and Washington collects 2½ days basic pay for a run of about 4 hours,* over 225 miles of track. After a few hours lay-over he takes the same train back to New York, thereby collecting 4½ days pay for a total time spread of 14 hours, little over 8 hours actual work.**

► **A streamliner takes *90 minutes to make the 91-mile run* from Minneapolis to Willmar —but the *engine crew draws nearly a full basic day's pay.***

► **A passenger train makes the *New Orleans to Chicago run in just over 16 hours* and each member of the *engine crew draws 9 basic days pay.***

► **The engineer running a train between *Boston and New Haven* is on duty 9 hours for his round trip, *6 hours of running time,* for which *he receives more than 3 days pay.***

► **A fast freight between *St. Louis and New York* on a schedule of *34 hours and 30 minutes, requires 7 full crews* who get *paid for 86 hours* and 6 minutes.**

► **A switch engine foreman spent *10 minutes throwing a switch* for an incoming passenger train. *His paycheck: one full day.***

► **A road *freight engineer demanded and received an extra day's pay* for moving his train the length of 40 cars in the freight yard. (Case 17377, National Railroad Adjustment Board.)**

► **A *4-mile round trip* was made by a yard crew to pull a freight train out of the snow and they *got paid not for 4 miles—but for 100 miles.* (Case 16608, NRAB.)**

► **Shop crews moved two cars into the shop by pinch bar. The yard crew, a *conductor* and *two brakemen received a day's pay because they were NOT called* to do the job. (Case 16963, NRAB.)**

► **A *switchman* set hand brakes to secure the rear end of a train whose crew had been *relieved from duty under the Hours of Service* Law. He was *awarded an extra day's pay.* (Case 17683, NRAB.)**

► **Shop employees moved an engine from the roundhouse to the pit track and in so doing used *a few feet of track* generally used by yard crews. A *conductor and two brakemen* put in claims for a day's pay each, and were paid the money. (Case 15534, NRAB.)**

materials were assembled by union workers; *the fact of unionism, therefore, did not enter into the dispute.*

The Government asked the District Court to issue an injunction to dissipate the effects of the conspiracy between the unions and those contractors who paid up rather than fold up. Disposing of the troublesome legal issue of injunctions against unions in the exercise of their rights, the Department said: "The violation is one in which a labor union acts outside of the protection afforded to it by other laws. *It is clear that a union cannot combine and conspire with an employer when the effect is to impose an unreasonable restraint on interstate commerce.*"

*In the language quoted above lies the guide of the courts, and employers, based on decided cases. The principle might be utilized to put an end to scores of featherbedding situations.*

*Last September, the union went into court at Chicago and signed an antitrust consent judgment, terminating the practices.* The decree ruled out the ban on pre-glazed materials, and banned work stoppage based on the fact that pre-glazed products were being used in the job. The court order also enjoined the union from demanding, or accepting, money to permit factory prepared materials to be placed in the buildings.

### Why Not End Costly Railroad Abuses?

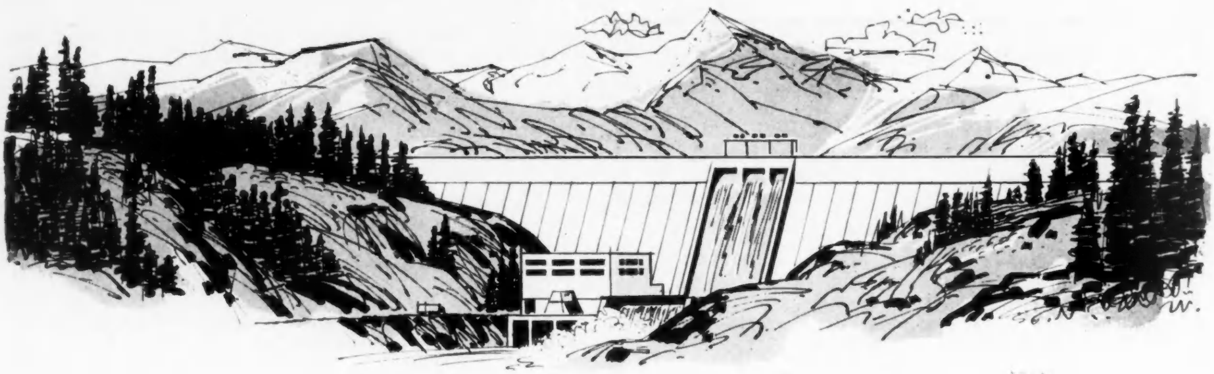
Railroad management, aware of the decision in the Chicago case, but still hopeful that a court test of its applicability to the transport industry may be avoided, is proceeding on another tack: officials of the operating brotherhoods (unions), have been asked to join with management in petitioning President Eisenhower to appoint a special citizens committee to help overcome the problems of featherbedding. Weeks of waiting have produced no reply. But this might be the year of decision on the explosive issue because the three-year contract involving work-rules comes up for continuance, revision, or cancellation. The national interest is immense. *Last year's strikes in air transportation are but a token of the economic destruction and personal hardship that would come in the wake of rail service stoppage. One could result from a stalemate in negotiations.*

The work rules existing today were standardized 40 years ago, long before modernization and sweeping mechanization turned the iron horse into a compact power plant. *But many of the provisions of 1919 agreements stand today as a bar to investor returns and the creation of equity capital to expand and improve.*

As frequently happens, the made-work boomerangs against the union men themselves: more than a half-million railroad jobs have been lost in the past decade, and more thousands are on the way out. Featherbedding is concentrated among the train operating positions which account for one-fourth of total railroad employment.

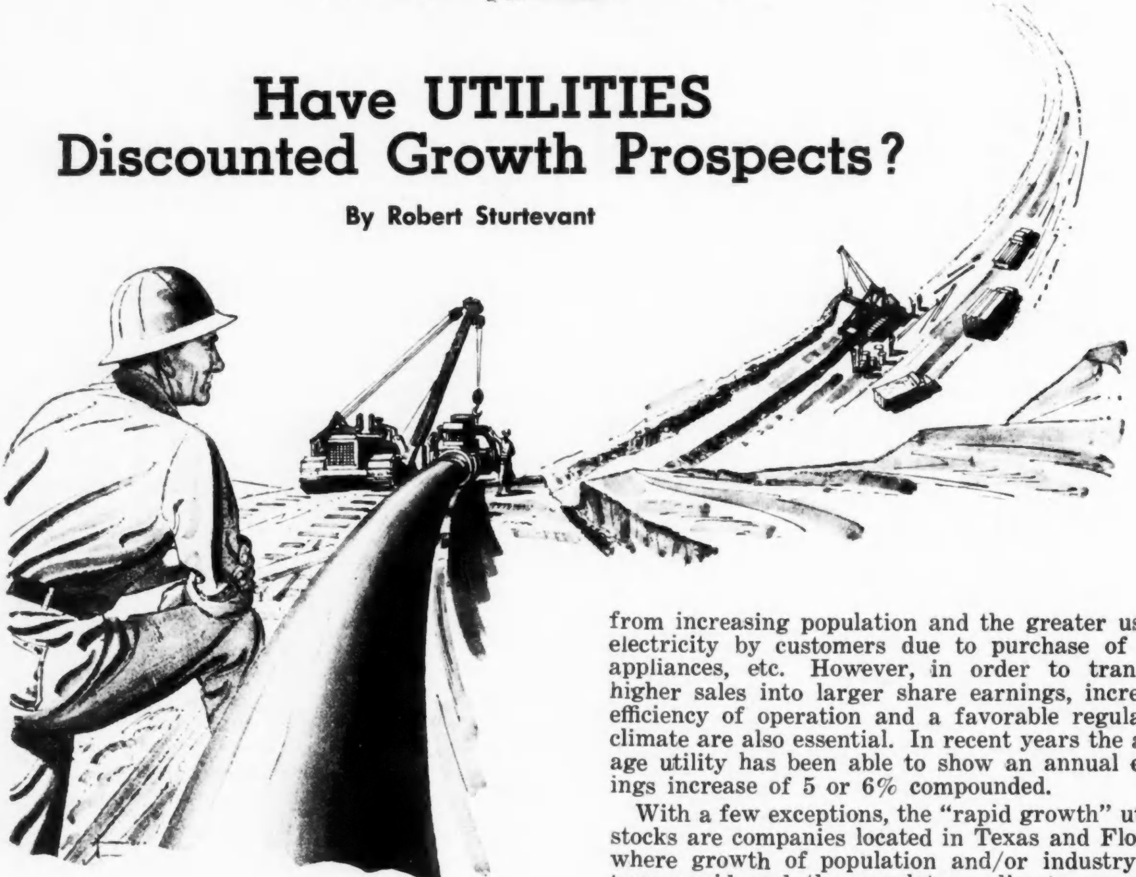
### Home Building Costs Could Be Cut 25%

In the building construction field the methods are less publicized, but *(Please turn to page 361)*



# Have UTILITIES Discounted Growth Prospects?

**By Robert Sturtevant**



DURING the past year a representative average of utility stocks has advanced about 21%. The average dividend rate increased 4%, but due to the higher price level the yield declined from 4.47% to 3.85%, or about 14%. On the other hand new offerings of utility bonds can now be bought to yield about 4¾%, and new preferred stocks to return 5-5½%.

Thus it is obviously the growth potential which makes utility common stocks more popular than the senior obligations, offsetting the adverse yield spread. Such growth is partly "built in" through the industry policy of plowing back about one-quarter of share earnings into plant — providing about 2-3% growth in share earnings, other conditions being equal. Additional growth may result from increasing population and the greater use of electricity by customers due to purchase of new appliances, etc. However, in order to translate higher sales into larger share earnings, increased efficiency of operation and a favorable regulatory climate are also essential. In recent years the average utility has been able to show an annual earnings increase of 5 or 6% compounded.

With a few exceptions, the "rapid growth" utility stocks are companies located in Texas and Florida, where growth of population and/or industry has been rapid and the regulatory climate especially favorable, permitting these utilities to earn a higher rate of return than in other states. These stocks usually show average gains of 10-12% per annum in share earnings. These growth utilities yield only about 2½ or 3% but this low return is supplemented by capital gains through price appreciation. Even if the stock advances an average of only 3% a year in price, investors would be reimbursed, in theory, for the low yield. Moreover, the growth companies increase their dividend rates practically every year so that the long-term investor's original yield increases automatically, in addition to the price gain.

### How To Gauge Growth

The secret of appraising and buying utility stocks successfully seems to be to determine the future

## Comparative Earnings, Dividend Record and Comment on Important Electric Utilities

| | Earning Per ..Share 1956 | 1957 | 1958 | —1st Quarter— 1958 | 1959 | Indicated Current Dividend | Recent Price | Div. Yield | Price Earnings Ratio * | Price Range 1958-1959 |
|---|---|---|---|---|---|---|---|---|---|---|
| **American Electric Power Co.** | $2.03 | $2.26 | $2.30 | $ .61 | $ .65 | $1.68 | 55 | 3.0% | 23.9 | 55⅞-38⅜ |
| **American & Foreign Power** | 2.09 | 1.72 | 1.72 | N.A. | N.A. | 1.00 | 15 | 6.6 | 8.7 | 18⅞-11¾ |
| **Central & South West Corp.** | 2.32 | 2.41 | 2.55 | .47 | .54 | 1.80 | 60 | 3.0 | 23.5 | 68¼-41⅛ |
| **Cincinnati Gas & Electric** | 1.99 | 2.01 | 1.85 | .87 | .86 | 1.50 | 33 | 4.5 | 17.8 | 37 -28¾ |
| **Cleveland Electric Illum.** | 2.60 | 2.64 | 2.60 | .77 | .83 | 1.60 | 53 | 3.0 | 20.3 | 55½-37⅜ |
| **Commonwealth Edison** | 2.72 | 2.85 | 3.28 | .88 | 1.08 | 2.00 | 61 | 3.2 | 18.6 | 64 -41⅝ |
| **Consolidated Edison** | 3.20 | 3.44 | 3.74 | 1.44 | 1.53 | 2.80 | 65 | 4.3 | 17.3 | 68¼-44½ |
| **Consumers Power Co.** | 3.33 | 3.30 | 3.15 | N.A. | N.A. | 2.40 | 52 | 4.6 | 16.5 | 61¾-48⅛ |
| **Dayton Power & Light** | 3.81 | 3.15 | 3.21 | N.A. | N.A. | 2.40 | 53 | 4.5 | 16.5 | 61 -43½ |
| **Detroit Edison** | 2.36 | 2.62 | 2.17 | .74 | .73 | 2.00 | 43 | 4.6 | 19.9 | 47¾-37⅞ |
| **Duquesne Light Co.** | 1.22 | 1.36 | 1.40 | .41 | .40 | 1.10 | 25 | 4.4 | 17.9 | 26⅞-17⅛ |
| **Florida Power & Light** | 1.29 | 1.49 | 1.75[2] | .48 | .47 | .88[2] | 45[2] | 1.9 | 25.7 | 48½-27 [2] |
| **Hartford Electric Light Co.** | 3.98 | 4.33 | 4.06 | 1.20 | 1.13 | 3.00 | 67 | 4.4 | 16.5 | 74¾-56 |
| **Middle South Utilities** | 2.18 | 2.41 | 2.61 | .61 | .63 | 1.90 | 50 | 3.8 | 19.1 | 51¼-34¼ |
| **New England Electric System** | 1.23 | 1.19 | 1.26 | .41 | .43 | 1.00 | 20 | 5.0 | 15.9 | 21¼-14½ |
| **Niagara Mohawk Power** | 2.13 | 1.91 | 2.12 | .79 | .80 | 1.80 | 39 | 4.6 | 18.3 | 41⅜-29¼ |
| **Northern States Power** | 1.21 | 1.23 | 1.30 | .41 | .48 | 1.10 | 25 | 4.4 | 19.2 | 25¾-16⅝ |
| **Ohio Edison** | 3.79 | 3.62 | 3.60 | 3.60[1] | 3.68[1] | 2.64 | 64 | 4.1 | 17.7 | 67¾-50⅞ |
| **Pacific Gas & Electric** | 3.37 | 3.41 | 3.74 | 3.59[1] | 3.72[1] | 2.60 | 64 | 4.0 | 17.1 | 66¾-47¾ |
| **Philadelphia Electric** | 2.59 | 2.60 | 2.76 | .88 | .98 | 2.24 | 52 | 4.3 | 18.8 | 57 -37⅛ |
| **Public Service Elec. & Gas** | 2.10 | 2.22 | 2.14 | .88 | 1.07 | 1.80 | 39 | 4.6 | 18.2 | 43⅞-29¾ |
| **Puget Sound Pow. & Lt.** | 1.67 | 1.82 | 1.97 | .52 | .58 | 1.44 | 33 | 4.3 | 16.7 | 35⅞-26⅞ |
| **Southern California Edison** | 3.48 | 3.12 | 3.78 | 1.03 | .95 | 2.60 | 60 | 4.3 | 15.8 | 63¾-49⅝ |
| **Southern Co.** | 1.54 | 1.65 | 1.81 | 1.70[1] | 1.75[1] | 1.30 | 38 | 3.4 | 21.0 | 39¾-24¾ |
| **Union Electric Co.** | 1.70 | 1.94 | 1.77 | N.A. | N.A. | 1.52 | 33 | 4.6 | 18.6 | 35¾-27¼ |
| **Utah Power & Light** | 1.70 | 1.82 | 1.75 | .43 | .49 | 1.20 | 34 | 3.5 | 19.4 | 37 -24⅞ |
| **Virginia Electric & Power** | 1.39 | 1.53 | 1.66 | .45 | .47 | 1.10 | 36 | 3.0 | 21.6 | 40⅞-26⅛ |
| **West Penn Electric** | 2.15 | 2.19 | 2.26 | .62 | .65 | 1.60 | 36 | 4.4 | 15.9 | 38¾-25¾ |
| **Wisconsin Electric Power** | 2.44 | 2.40 | 2.12 | N.A. | N.A. | 1.70 | 38 | 4.4 | 17.9 | 40½-31⅞ |

***—Based on 1958 earnings.**
**N.A.—Not available.**
**[1]—12 months ended March 31.**
**[2]—Adjusted for 2 for 1 stock split.**

**American Electric Power:** Largest electric holding company system, operating in 7 states. Leads in developing very large and efficient generating units, with low generating costs. Good growth, huge construction program under way. **A1**

**American & Foreign Power:** Stock sells at relatively low earnings multiple because of highly cyclical business in Latin America plus political and inflationary difficulties. While Cuban situation is hard to appraise, $1 dividend seems reasonably safe at present. **C2**

**Central & South West** is large integrated holding company system in Texas and adjoining states, with excellent growth record. Current outlook for 1959 looks good. **B1**

**Cincinnati Gas & Electric** has paid dividends on the common stock for 106 years. Share earnings record irregular in recent years but stock has good investment quality and yield about 4.5%. **A2**

**Cleveland Electric Illuminating** operates at center of important industrial area. While 45% of revenues contributed by industrial customers is high, conservative equity ratio acts as stabilizer. Showed benefit from St. Lawrence Seaway. **A2**

**Commonwealth Edison** has good but not especially dynamic record. 1958-59 earnings benefitting from rate increase. Company policy is to pay out practically all earnings in cash and stock, which together provide very attractive yield. **A1**

**Consolidated Edison,** largest utility in revenues, has strong defensive quality due to lack of heavy industry in area. Growth possibilities through present New York building activity, potential expansion in Staten Island and modernization of municipal plants recently acquired. **A1**

**Consumers Power,** serving "outstate" Michigan, has reported stable share earnings in recent years and may obtain a moderate rate increase in near future. **A2**

**Dayton Power & Light** earnings were rather disappointing in 1957-58 following three years' gains, but 1959 is expected to make an excellent showing due to industrial activity. **B1**

**Detroit Edison** suffered a sharp drop in share earnings last year due to heavy unemployment in the automotive industry but a partial recovery is anticipated this year despite an increase in outstanding shares. **A2**

**Duquesne Light,** serving the Pittsburgh steel area, has shown a moderate uptrend in share earnings in recent years, now accentuated by "flow through" of tax savings. 1959 net should show a good increase. **B1**

**Florida Power & Light** has had a fabulous record of increasing revenues and share earnings (both gained each year since 1948, as did also dividends paid). Despite a recent small rate cut, gains are expected to continue. **A1**

**Hartford Electric Light** now serves a large part of Connecticut, last year's merger with Connecticut Power having doubled revenues. The merger meant heavier expenses temporarily, but eventually may prove quite beneficial to earnings. **B2**

**Middle South Utilities,** an important holding company system in the "deep south," was handicapped by regulatory troubles in Arkansas in 1954-55, but later earnings have shown good increases and a further gain is forecast for 1959. **B1**

**New England Electric System** has mediocre record of past share earnings but a good gain in 1959 is anticipated. Company may have to divest gas properties. Stock affords above-average yield. **B1**

**Niagara Mohawk Power** still feels adverse effects of loss of big Schoellkopf Station in 1956 and is seeking second rate increase to offset higher costs. **B1**

**Northern States Power** operates in large midwest farm area, with some light industry. Earnings have shown modest uptrend and the stock provides good yield and strong defensive quality. **B1**

**Ohio Edison** operates in highly industrialized area. Earnings in irregular uptrend in 1951-1956, wth slight declines in 1957-58. Rate increase requested in January. **B1**

**Pacific Gas & Electric** with very rapid growth has become second largest utility. Share earnings disappointing in 1949-52 but trend improved in later years, due in part to rate increases. **A1**

**Philadelphia Electric** has benefitted by industrial growth in Delaware Valley, but declining return on investment retarded modest uptrend in share earnings during 1951-57; now larger gains are being reported. **A1**

**Public Service Electric & Gas** serving substantial part of New Jersey, has had inadequate rate of return for some years, and 1958 earnings were about same as 1951. Company has now requested substantial rate increases, part of which are in effect. **A2**

**Puget Sound Power & Light** has been able to postpone equity financing for some years due to property sales and debt retirement. Aided by area growth, earnings nearly doubled since 1952 and should increase further this year. **B1**

**Southern California Edison's** excellent sales growth has been largely offset by higher fuel costs and poor return. However, a large rate increase has stimulated 1958-59 earnings. Stock sells at moderate PE-ratio. **A1**

**Southern Company,** important holding company operating in Georgia, Florida, Alabama, and Mississippi is now accelerating the uptrend in share earnings and gaining improved status as a growth utility. **B1**

**Union Electric,** serving St. Louis and adjacent area, has had a rather mediocre share earnings record in 1955-59 (despite adoption of "flow through") but company has now asked for rate increases. **B2**

**Utah Power & Light** has enjoyed excellent growth with revenues gaining 145% since 1948. Share earnings have also showed a good uptrend. Last year's moderate decline should be followed by a sharp increase this year. **B1**

**Virginia Electric & Power** is a "rapid growth" utility, share earnings having increased from 82c in 1951 to $1.66 for 1958. Continued gains are anticipated as company expanding rapidly and return is satisfactory. **A1**

**West Penn Electric** operates in area of cyclical industry yet share earnings have shown modest gains in each of past seven years, while at same time equity ratio was raised from 24% to 32%. **B1**

**Wisconsin Electric Power** earnings almost made a line over the past decade and were hurt last year by equity financing, but rate increase should improve the 1959 showing. **B1**

**RATINGS:** **A—Best grade.** **B—Good grade.** **C—Speculative.** **D—Unattractive.** **[1]—Improved earnings trend.** **[2]—Sustained earnings trend.** **[3]—Lower earnings trend.**

## 1958 Key Statistics and Ratios of Im

| | American Electric Power | Baltimore Gas & Electric | Central & South West Corp. | Cincinnati Gas & Electric | Cleveland Electric Illum. | Common-wealth Edison | Consol-idated Edison | Co sur Po |
|---|---|---|---|---|---|---|---|---|
| **PLANT VALUE (MILLIONS) GROSS** | $1,511 | $494 | $696 | $390 | $523 | $1,874 | $2,225 | $9 |
| Depreciation Reserve | 322 | 95 | 105 | 87 | 136 | 409 | 422 | 1 |
| Net Plant Account | 1,229 | 399 | 591 | 303 | 387 | 1,465 | 1,802 | 7 |
| **CAPITAL RATIOS (%)** | | | | | | | | |
| Funded Debt to Total Capitalization | 58 | 49 | 52 | 46 | 45 | 53 | 50 | |
| Preferred Stock to Total Capitalization | 8 | 7 | 11 | 14 | 7 | 4 | 9 | |
| Common Stock & Surplus to Total Capitalization | 34 | 44 | 37 | 40 | 48 | 43 | 41 | |
| **ANALYSIS OF REVENUES—ELECTRICITY %** | 100 | 67 | 100 | 60 | 61 | 100 | 79 | |
| Gas % | — | 31 | — | 40 | 39 | — | 15 | |
| Miscellaneous | — | 2 | — | — | — | — | 6 | |
| **INCOME ACCOUNT (Consolidated)** | | | | | | | | |
| Gross Revenues (Millions) | $296 | $153 | $147 | $128 | $119 | $405 | $577 | $ |
| Operating Expense (includ. purch. pow. & gas) | 102 | 85[2] | 47 | 69 | 48 | 153 | 242 | |
| Maintenance | 22 | — | 8 | 6 | 6 | 22 | 55 | |
| Depreciation | 38 | 11 | 16 | 9 | 13 | 45 | 49 | |
| Taxes—Federal Income (includ. Deferred Taxes) | 39 | 18 | 26 | 15 | 16 | 55 | 46 | |
| Net Operating Income (after all taxes) | 70 | 23 | 38 | 19 | 22 | 80 | 92 | |
| Gross Income | 71 | 24 | 38 | 19 | 22 | 81 | 92 | |
| Fixed Charges, etc.[1] | 20 | 6 | 11 | 4 | 3 | 18 | 24 | |
| Net Income | 50 | 18 | 26 | 16 | 18 | 63 | 65 | |
| **EXPENSES RATIOS (%)** | | | | | | | | |
| Ratio Depreciation to Gross Revenues | 13 | 7 | 11 | 7 | 11 | 11 | 8 | |
| Maintenance to Gross Revenues | 7 | — | 6 | 6 | 5 | 5 | 10 | |
| Combined Deprec. & Maintenance to Gross Rev. | 20 | — | 17 | 13 | 16 | 16 | 18 | |
| Operating Ratio (including taxes) | 76 | 84 | 74 | 85 | 81 | 80 | 84 | |
| **EARNING RATIO** | | | | | | | | |
| No. Times Fixed Charges Earned after taxes[1] | 3.5 | 4.2 | 3.3 | 5.6 | 6.5 | 4.4 | 3.7 | |
| **ANALYSIS OF ELECTRIC REV. (% of Total)** | | | | | | | | |
| Residential & Rural | 35 | 35 | 38 | 35 | 33 | 35 | 34 | |
| Commercial | 15 | 31 | 29 | 25 | 58[3] | 30 | 54[3] | |
| Industrial | 40 | 33 | 22 | 29 | — | 26 | — | |
| Other | 10 | 1 | 11 | 11 | 9 | 9 | 12 | |
| **COMMON STOCK** | | | | | | | | |
| Dividend Pay-out | 73 | 75 | 70 | 81 | 61 | 61 | 74 | |

1—Includes interest on construction credit.
2—Includes maintenance.
3—Combined commercial and industrial.

rate of growth, so far as this is possible. Since the price earnings ratio is a better market yardstick than yield, the future rate of growth should determine the number of times earnings that the investor is willing to pay for any particular stock. How can estimates of future growth be made? One method is to study the figures on budgeted construction expenditures which are frequently announced for several years ahead in prospectuses, annual reports, etc. By comparing this with past expenditures, a rough idea of whether the company will continue its rapid growth, (or whether it is slowing down) can be determined.

### Price Earnings Ratio In Evaluating Utilities

A utility stock which has shown little or no increase in share earnings in recent years may be *a "dud" so far as the sophisticated investor is concerned and such a stock would probably sell at about 12-15 times earnings and yield 5% or over.* A stock whose earnings have increased, on the average, about 5-7% annually might be worth about 15-18 times earnings and might yield about 4-4½%. With average gains of 8 or 9% the PE-ratio might rise to 20 or over; and with gains of 10-15% or more to perhaps 25 times.

The current growth outlook seems excellent. Weekly kwh output figures continue to average about 12 to 14% over last year. In January all Class A and B privately owned utilities showed a gain in revenues of 8% (over 1958) and in net income of 14%; for February the increases were 7% and 12%. These changes are measured against last year's recessed figures but nevertheless they are quite encouraging because last year the utilities were favored by plentiful hydro (permitting fuel savings) whereas this year the weather has been less favorable in supplying water-power.

Despite the bad recession effects on several individual companies such as Detroit Edison, electric utilities last year showed an earnings gain of about

## Ratios of Important Utility Companies

| onsol-lated dison | Consumers Power | Detroit Edison | Middle South Util. | Niagara Mohawk Power | Northern States Power | Ohio Edison | Pacific Gas & Electric | Phila. Electric | Public Service Elec. & Gas | Puget Sound Power & Light | Southern Calif. Edison | Southern Company | Union Electric Co. | West Penn Electric |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2,225 | $931 | $1,066 | $794 | $1,123 | $600 | $667 | $2,631 | $1,126 | $1,311 | $184 | $1,268 | $1,292 | $666 | $623 |
| 422 | 150 | 194 | 153 | 254 | 124 | 121 | 501 | 242 | 268 | 18 | 201 | 243 | 148 | 147 |
| ,802 | 781 | 872 | 641 | 869 | 476 | 546 | 2,130 | 884 | 1,043 | 166 | 1,067 | 1,049 | 518 | 476 |
| 50 | 51 | 53 | 54 | 55 | 48 | 46 | 49 | 53 | 56 | 58 | 52 | 55 | 55 | 52 |
| 9 | 11 | — | 10 | 15 | 19 | 14 | 16 | 10 | 9 | — | 14 | 11 | 12 | 14 |
| 41 | 38 | 47 | 36 | 30 | 33 | 40 | 35 | 37 | 35 | 42 | 34 | 34 | 33 | 34 |
| 79 | 66 | 97 | 84 | 78 | 85 | 98 | 65 | 85 | 66 | 100 | 100 | 100 | 94 | 100 |
| 15 | 33 | — | 11 | 22 | 14 | — | 34 | 14 | 34 | — | — | — | 3 | — |
| 6 | 1 | 3 | 5 | — | 1 | 2 | 1 | 1 | — | — | — | — | 3 | — |
| $577 | $227 | $246 | $183 | $264 | $155 | $138 | $535 | $248 | $344 | $ 28 | $255 | $272 | $131 | $142 |
| 242 | 112 | 116 | 71 | 125 | 65 | 46 | 203 | 103 | 154 | 12 | 86 | 103 | 55 | 54 |
| 55 | 10 | 15 | 11 | 20 | 8 | 9 | 19 | 23 | 30 | 2 | 14 | 15 | 10 | 10 |
| 49 | 22 | 24 | 21 | 22 | 14 | 16 | 51 | 31 | 30 | 2 | 27 | 36 | 16 | 15 |
| 46 | 30 | 8 | 24 | 10 | 20 | 23 | 66 | 33 | 31 | 1 | 41 | 38 | 10 | 16 |
| 92 | 41 | 42 | 35 | 45 | 29 | 30 | 110 | 47 | 289 | 8 | 54 | 60 | 27 | 30 |
| 92 | 43 | 42 | 36 | 45 | 29 | 31 | 111 | 48 | 54 | 8 | 55 | 61 | 28 | 31 |
| 24 | 11 | 12 | 10 | 15 | 7 | 5 | 23 | 8 | 22 | 1 | 15 | 22 | 7 | 10 |
| 65 | 31 | 30 | 25 | 30 | 22 | 26 | 85 | 39 | 35 | 6 | 40 | 38 | 20 | 20 |
| 8 | 10 | 9 | 11 | 8 | 9 | 12 | 10 | 12 | 8 | 8 | 11 | 12 | 12 | 11 |
| 10 | 4 | 6 | 6 | 8 | 5 | 6 | 3 | 9 | 9 | 7 | 5 | 5 | 8 | 7 |
| 18 | 14 | 15 | 17 | 16 | 14 | 18 | 13 | 21 | 17 | 15 | 16 | 17 | 20 | 18 |
| 84 | 82 | 82 | 80 | 83 | 81 | 71 | 79 | 84 | 84 | 70 | 79 | 77 | 78 | 77 |
| 3.7 | 3.8 | 3.5 | 3.5 | 3.1 | 4.4 | 6.1 | 4.7 | 5.7 | 2.5 | 5.6 | 3.6 | 2.6 | 3.8 | 2.9 |
| 34 | 43 | 41 | 38 | 35 | 46 | 40 | 46 | 35 | 35 | 56 | 41 | 35 | 37 | 40 |
| 54[3] | 22 | 27 | 26 | 19 | 48[3] | 23 | 48[3] | 57[3] | 30 | 26 | 22 | 26 | 22 | 16 |
| — | 30 | 27 | 26 | 31 | — | 31 | — | — | 31 | 11 | 27 | 28 | 33 | 39 |
| 12 | 5 | 5 | 10 | 15 | 6 | 6 | 6 | 8 | 4 | 7 | 10 | 11 | 8 | 5 |
| 74 | 76 | 92 | 73 | 85 | 84 | 73 | 70 | 81 | 83 | 73 | 68 | 71 | 85 | 70 |

5% over 1957, due to favorable factors such as good hydro, substantial credits for interests on construction, etc. This year's gain might average nearly twice as much — 8 to 10%. During the past decade the 24 utilities included in the Moody Average have shown an average annual gain of 6% in share earnings compared with only about 3% during the 1940s; however, 9 leading growth utilities showed an average rate of gain of over 10% (compounded) during 1949-58.

### Anticipated Growth

It looks as if the postwar trend can continue as long as we don't have a major war or a big depression — in which case all bets are off. The industry has given every indication that sales can double *at least* every decade. Following is the record of 10-year increases in kwh output for the entire industry, including utilities controlled by Government agencies:

| | |
|---|---|
| 1920-30 | 133% |
| 1930-40 | 56 |
| 1940-50 | 132 |
| 1950-58 (eight years) | 96 |

Capability of all electric power systems increased 10.4 percent during 1958, reaching more than 144 millon-kw at the end of the year. Capability at the end of 1962, as now forecast, will reach more than 188 million kilowatts, a gain of 31% over 1958. While this indicates a little slowing down as compared with the previous decade, it must be remembered that many companies order generating units only two years ahead and the forecasts for 1961-2 may be on the low side.

*It would not be surprising, however, if new construction did decline somewhat, since the average utility now has reserve capacity of over 26%.* Considering the substantial interconnection of utilities, and the ability to obtain power in emergencies from a number of sources, *(Please turn to page 351)*

# BEHIND THE SCREENS

## *A Brief Look at life in the World of T.V.*

**By Jonathan W. Dodge**

- **Dynamic television now billion dollar industry**
- **Its strength as a sales medium**
- **The position of the individual networks and their broad diversification**

WHILE today, herbs are mainly used for such mundane purposes as brightening up a salad, this has not always been the case. In the darkness of the early middle ages, when magic was rife, practitioners of the various black arts knew of many more interesting ways to employ herbs. For example, the preparation of sage was a complicated affair, but when properly prepared could cause unconsciousness for fifteen days. But that process to produce somnambulism is no longer necessary in this modern age. Today, often the mere twist of a knob on a television set is sufficient to bring on a scene that seems well calculated to induce a coma, although perhaps not of fifteen days duration, because there are too many marvelous programs that awaken your sensibilities and stir your imagination.

**From the Beginning**

Barely ten years ago the first telecasts on what could be called a national scale wavered across the diminutive screens of the control-cluttered early sets. In 1948 the one-millionth set was sold and today something close to upwards of 86% of American homes have one machine; yet it took the earlier miracle of the telephone around fifty years to reach this amazing degree of market saturation. The quality of reception, the often unimaginative programming and frequently sorry acting were, and to a large extent still are, among the principal targets of the loud voiced critics — few of whom seem to have memories as long as their endless public harangues.

## Statistics on Major Broadcasting Companies

| | Total Revenues (Millions) 1956 | 1957 | 1958 | Net Earnings Per Share 1956 | 1957 | 1958 | 1st Quarter Earnings Per Share 1958 | 1959 | Indic. 1959 Div. * | Price-Range 1958-59 | Recent Price | Div. Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Amer. Broadcasting - Paramount | $206.9 | $215.8 | $244.8 | $1.78 | $1.10 | $1.21 | $ .43 | $ .54 | $1.00 | 29⅝-13 | 28 | 3.5% |
| Columbia Broadcast. System ........ | 354.7 | 385.4 | 411.8 | 2.13 | 2.82 | 3.01 | .83 | .87 | 1.20[1] | 48¾-24½ | 46 | 2.5 |
| Radio Corp. of Amer. (NBC) ** .... | 1,121.0 | 1,170.9 | 1,170.6 | 2.63 | 2.52 | 1.98 | .59 | .88 | 1.50 | 71 -30¼ | 66 | 2.2 |

*—Based on latest dividend rates.
**—National Broadcasting Co., is 100% owned by Radio Corp. No segregated break-down of data is available.
1—Plus stock.

No other entertainment medium in history has grown as fast as TV; certainly movies took far longer to achieve the degree of technical and artistic maturity that television has attained in its short life. It is perhaps unfortunate that TV has grown so quickly in size and impact; it is more of a wonder, however, that it has achieved the degree of maturity it has. If television is to gain stature, it must, admittedly, grow within itself; however, it must also have some help from the nation-wide community which it serves.

### Uncle Sam and the TV Man

One of the more basic facts of life in the industry is that for reasons of technical necessity, television is regulated by the Federal Government, more specifically, the Federal Communications Commission. This Commission has ruled that ownership of stations by individuals or companies is limited to no more than seven. Thus, to increase coverage of the community, the larger companies have had to build a network of affiliated stations. Advertising is the ambrosia which supports broadcasting, and coverage is the lure of the advertising dollar.

The FCC further exercises its jurisdiction over the airways by granting station franchises. Certain markets are considered more desirable than others by advertisers, and in this way to a large extent have been determined the competitive positions of the larger networks.

The setup may sound simple enough, but as more than one industry has discovered, dealing with Uncle Sam can be harrassing; and, when the Government is making the rules, some hardships, as well as some benefits, result. Besides the touchy problem of allocations, and the whole area of relationships between the various companies and their affiliates in the network, there exist a host of potentially explosive danger spots.

One of the more recent tangles between the networks and the FCC threatened to hamstring seriously the news-reporting services of the TV broadcasters. In a mayoralty election held not long ago, a candidate demanded that a station give him free time on the air under the provisions of Section 315 of the Communications Act which provides politicians an equal chance to hack away at the viewer's intelligence for political purposes. In this particular instance a candidate was told that he couldn't have his free time because not only did he appear to be interested primarily in personal publicity (he was a many-time runner and a many-time loser), but the station claimed the appearance of the other candidate was simply news reporting by the station involved. Well, the FCC ruled that the candidate *was* entitled to free time, and the show he put on was enough to cause the Attorney General to call for a reversal of the decision and enough to cause the introduction in Congress by Senator Hartke (D-Ind.) of a bill to revamp the Section in question; by May 15th the Bill had drawn 14 co-sponsors.

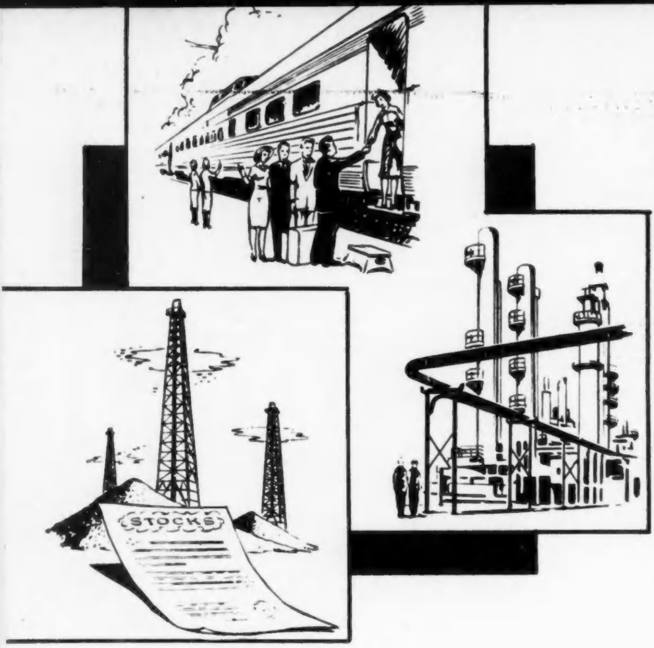
By and large, however, it must be realized that the FCC does its best to operate in the public's interest and space prohibits recounting some of the Commission's wiser policy making decisions. The example is intended merely to point up the harrassments the industry faces in its role as a government regulated industry.

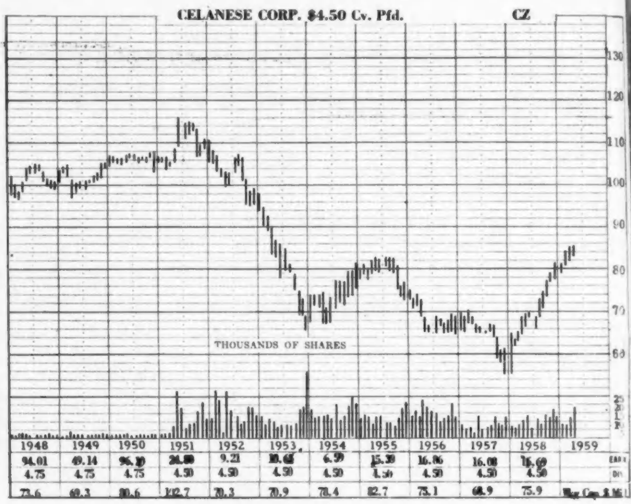
### The Spiel For Piel

Television broadcasting costs money, and because TV is an excellent medium through which to project a message to a large gathering of potential buyers, the industry is supported in the main by companies with goods for sale. The extent of this support is indicated by the following table which shows, by dollar expenditures in the month of February, 1959, the products most advertised and the biggest individual advertisers, each in the order of the amount spent.

| Product | Amount | Company | Amount |
|---|---|---|---|
| Food .............................. | $9.8 mill. | Procter & Gamble ........ | $4.1 mill. |
| Cosmetics ........................ | 7.8 " | Lever Bros. .................... | 2.1 " |
| Tobacco .......................... | 6.1 " | Amer. Home Prod. ........ | 2.0 " |
| Prop. Drugs .................... | 6.0 " | General Foods ................ | 1.9 " |
| Soaps Etc. ...................... | 5.4 " | Colgate-Palmolive .......... | 1.9 " |
| Auto Etc. ........................ | 3.6 " | General Motors .............. | 1.7 " |
| Home Equip. .................. | 2.0 " | R. J. Reynolds .............. | 1.3 " |

Furthermore, the use of TV as an advertising media is growing at the expense of such other vehicles as newspapers and magazines. For example, in 1956 the petroleum industry spent $32 million in newspaper advertising, $11 million in magazines and $19 million on TV; by 1958 the expenditures in papers were down to $29 million, in magazines down to $13 million, and television spending showed an increase to $27 million. Advertising revenues have increased for one reason — television advertising is effective, as the following cases should indicate. Elgin National Watch, plagued by lagging sales, recently stepped up its TV ad *(Please turn to page 355)*






# 3 Attractive Issues for Different Investment Aims

**By OUR STAFF**

WE have carefully selected the three stocks presented in this article as worthwhile values, in the belief that they may prove to be interesting to our readers — especially under prevailing market conditions when so many issues appear to be generously valued or even over-priced. While each stock may appeal to somewhat different investment objectives, all three may meet the requirements of those seeking income and growth.

Celanese Corp. of America $4.50 preferred, selling at about 85¼, offers a yield of 5.25% — an excellent return when the wide dividend coverage is considered. In addition, this issue carries a two-year privilege of conversion into common stock. Earnings are in a rising trend. As we go to press, a 25% stock dividend has been declared on the common payable about July 15. Thereafter, the preferred will be convertible into common at $44.

Standard Oil of Indiana, yielding 3.3%, is one of the strongest units in the entire domestic industry. It is the dominant refiner and marketer in the midwestern area, and is currently enjoying a sharp improvement in its refinery profit margin. More importantly for those inclined to look askance at the industry at this time, Indiana is almost entirely a domestic company, apart from its ownership of stock in Standard Oil of N.J.

Union Pacific is usually remembered as a railroad, rather than for its oil and gas operations. While widely recognized as an efficient road benefiting from growth of the West, it is less often realized that close to 40% of its earnings represents profits from oil and gas, and income from investments and other sources. UP has large land holdings. As a quality issue, the stock offers a yield of 4.5%.

Current prices of these stocks appear to be reasonable, based on earning power and dividends, the time-tested yardsticks of value.

### CELANESE CORP. OF AMERICA

**BUSINESS:** Celanese is the leading producer of cellulose acetate yarns and fibers, sold mainly to textile mills under its own trade names and used in fabric for apparel, home furnishings and industrial applications. Its capacity represents over 75% of the acetate industry. The chemicals and plastic division, now accounting for 35% of the company's total sales, embraces a wide range of products, including cellulose plastics, polyethylene and petrochemicals.

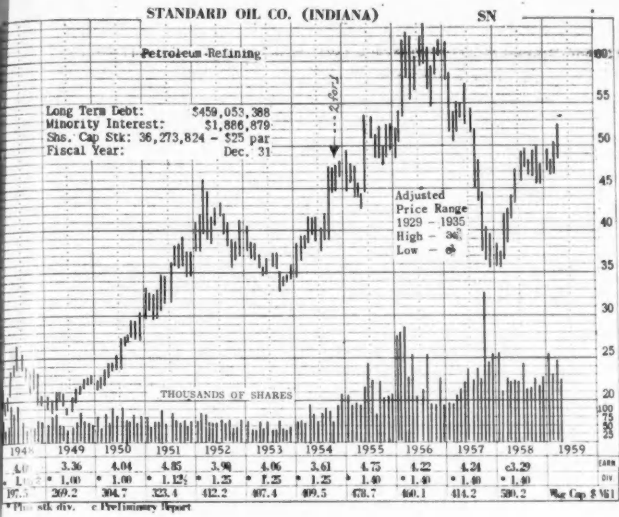
**OUTLOOK:** Sales have been in a rising trend since 1954, due to development of new markets and expansion in chemicals and plastics. Since introduction in 1955, Arnel fiber has steadily broadened its end-uses. More than one-third of total fiber sales represent product variations developed since 1955. Plastic sales have almost doubled in the past five years, and chemicals have shown a 15% average yearly growth in the past decade. Fortiflex high-density polyethylene (introduced in 1957) has continued to widen its market. The second phase of an expansion program, began in 1956, is now well under way. Currently, capacity output appears in prospect for the fiber division, and the outlook for chemicals and plastics is promising. Thus, with improvement in fiber prices, indications now point to a substantial gain in sales and earnings for the year 1959.

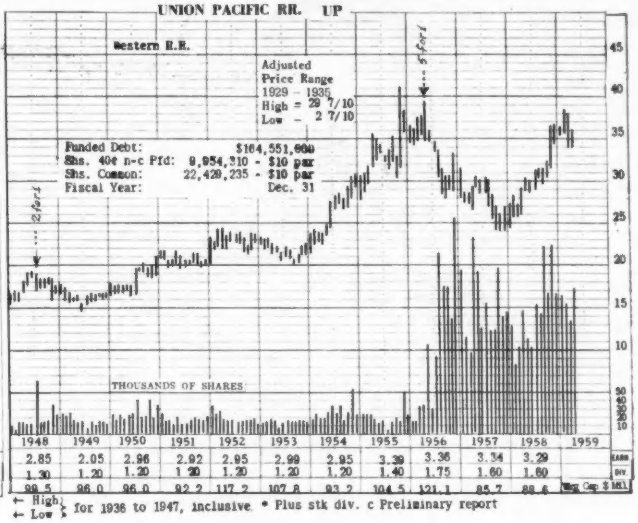
**DIVIDENDS:** The 4½% cumulative convertible preferred stock ($100 par) has preference over the second preferred and common stocks. It is redeemable at 105 through May 1, 1961 and lower prices thereafter. It is convertible into common stock at $55 per share prior to May 1, 1961, when the conversion privilege ends. For the year 1958, earnings amounted to $16.69 per share of 4½% preferred. In the first quarter of this year, earnings increased to $4.90 per share from $2.51 a year ago. The $4.50 annual dividend has been paid regularly since issue of the stock.

**MARKET ACTION:** At the current price of 85¼, the 4½% preferred provides an excellent yield of about 5.25%, with wide dividend coverage. In addition, it carries a two year conversion privilege into the common stock. Earnings amounted to $2.05 per share of common last year, and increased sharply to 64 cents per share in the initial quarter of 1959 from 23 cents a year ago. The conversion feature of the preferred lends interest to the issue.

**COMPARATIVE BALANCE SHEET ITEMS**

| ASSETS | December 31 1957 | 1958 | Change |
|---|---|---|---|
| | (000 omitted) | | |
| Cash & Marketable Secur. | $ 21,799 | $ 32,269 | +$ 10,470 |
| Receivables Net | 21,035 | 22,012 | + ,977 |
| Inventories | 41,470 | 34,975 | — 6,495 |
| Prepayments | 4,562 | 4,664 | + ,102 |
| TOTAL CURRENT ASSETS | 88,866 | 93,920 | + 5,054 |
| Net Property | 173,855 | 162,536 | — 10,319 |
| TOTAL ASSETS | $341,687 | $340,060 | —$ 1,627 |
| LIABILITIES | | | |
| Curr. Debt Maturity | $ 4,976 | $ 1,610 | —$ 3,366 |
| Accounts Payable | 6,924 | 7,348 | + ,424 |
| Accruals | 8,034 | 8,985 | + ,951 |
| Tax Reserve | 6,851 | 12,707 | + 5,856 |
| U. S. Tax notes | (DR)6,851 | (DR)12,707 | + 5,856 |
| TOTAL CURRENT LIABILITIES | 19,934 | 17,943 | — 1,991 |
| Long Term Debt | 94,580 | 88,013 | — 6,567 |
| Preferred Stock | 103,240 | 103,240 | — |
| Common Stock | 2,338 | 2,338 | — |
| Surplus | 120,251 | 126,365 | + 6,114 |
| TOTAL LIABILITIES | $341,687 | $340,060 | — 1,627 |
| WORKING CAPITAL | $ 68,932 | $ 75,977 | +$ 7,045 |




## STANDARD OIL CO. (INDIANA)

**BUSINESS:** Standard Oil of Indiana is the dominant refiner and marketer of petroleum products in 15 midwestern states. It supplies a total of 29,000 retail outlets, with distribution in every state except Alaska and Hawaii. The company operates 12 domestic refineries, including the main units at Whiting, Indiana and Wood River, Illinois. Crude oil production, almost entirely in the U.S. and Canada, is slightly less than one-half of refinery requirements. However, Indiana is improving its domestic crude oil position and has foreign prospects.

**OUTLOOK:** While Indiana has oil concessions in South America, Africa and the Middle East, these interests are still largely in the exploration stage. To date, the company is primarily a domestic oil enterprise. Thus, its earning power is not subject to the uncertainties that plague the major international oil units today. Further, as a purchaser of half of its crude oil requirements, Indiana is now benefiting from excess supplies and easier prices for this raw material. At the same time, increased domestic demand has resulted in better prices for refined oils. Consequently, Indiana's refinery profit margin has widened. Also, it is continuing its program of improving the efficiency of refining and marketing operations. The financial position is strong.

**DIVIDENDS:** In the first quarter of this year, earnings increased to $1.25 per share from 88 cents a year ago. The company estimates earnings for the year 1959 at around the level of the $4.24 per share reported for 1957, as against $3.29 earned in 1958. The annual dividend rate is $1.40 per share in cash and 1 share of Standard Oil of New Jersey stock for each 200 shares of Indiana (equivalent to about 26 cents per share at the current price of Jersey). Indiana owns some 3,000,000 shares of Jersey.

**MARKET ACTION:** At the current price of about 49⅞, the stock is selling at 15.2 times 1958 earnings and 11.8 times officially projected 1959 earnings. The yield on the cash dividend is 2.8%, and on cash and Jersey stock combined (including the fractional Jersey share at market) 3.3%. As one of the strongest units in the domestic oil industry, Indiana carries investment appeal.

### COMPARATIVE BALANCE SHEET ITEMS

| ASSETS | December 31 1957 | 1958 | Change |
|---|---|---|---|
| | (000 omitted) | | |
| Cash & Marketable Secur. | $169,449 | $338,319 | +$168,870 |
| Receivables, Net | 226,860 | 217,257 | — 9,603 |
| Inventories | 259,932 | 246,274 | — 13,658 |
| Prepayments | 7,340 | 10,407 | + 3,067 |
| TOTAL CURRENT ASSETS | 663,581 | 812,257 | + 148,676 |
| Net Property | 1,791,592 | 1,872,696 | + 81,104 |
| Investments | 55,803 | 58,578 | + 2,775 |
| TOTAL ASSETS | $2,535,022 | $2,769,317 | +$234,295 |
| **LIABILITIES** | | | |
| Loans & Deb. | $ 35,024 | $ 8,857 | —$ 26,167 |
| Accounts Payable | 164,959 | 165,420 | + ,461 |
| Tax Reserve | 49,349 | 57,701 | + 8,352 |
| TOTAL CURRENT LIABILITIES | 249,332 | 231,978 | — 17,354 |
| Long Term Debt. | 271,639 | 458,604 | + 186,965 |
| Minority Interest | 1,791 | 1,882 | + ,091 |
| Capital Stock | 894,225 | 894,234 | + ,009 |
| Surplus | 1,118,035 | 1,182,619 | + 64,584 |
| TOTAL LIABILITIES | $2,535,022 | $2,769,317 | +$234,295 |
| WORKING CAPITAL | $414,249 | $580,279 | +$166,030 |

## UNION PACIFIC RAILROAD CO.

**BUSINESS:** Union Pacific operates over 9,700 miles of road from Kansas City to the Pacific Coast at San Francisco and Portland, Oregon. Its 1000 miles of double track from Omaha, Nebraska to Ogden, Utah represents the middle link in the overland route from Chicago to the Coast. The system's lines serve the central plains area, as well as inter-mountain, northwestern and southwestern sections of the country. Although widely recognized as an efficient railroad benefiting from growth of the West, it is less often realized that close to 40% of total earnings is represented by oil operations, and other income.

**OUTLOOK:** For the year 1958, the road reported earnings (after all expenses and taxes but before interest) of $82,792,000. Of this total, transportation operations contributed $50,788,000 (61.3%), income from oil and gas $17,239,000 (20.8%), interest and dividends on investments (including 50% owned Pacific Fruit) $9,554,000 (11.6%), and other income $5,211,000 (6.3%). Union Pacific has large land holdings. Discovery of an iron-titanium deposit on company land in Wyoming may add to future earning power. As a railroad, revenue growth is above average, reflecting industrial development of the West. Operations are highly efficient, with close cost-control and increasing dieselization.

**DIVIDENDS:** Earnings amounted to $3.29 per share in 1958, compared with $3.34 in 1957. For the first quarter of this year, Union Pacific reported 65 cents per share, as against 66 cents a year ago. While railroad earnings were higher in the recent quarter, income from oil and gas and from investments was somewhat lower. However, indications point to an increase in combined earnings for the year 1959. The annual dividend rate is $1.60 per share, including the usual 40 cent extra. Dividends have been paid without interruption since 1900.

**MARKET ACTION:** At the current price of about 35⅝, the stock is selling at only 10.8 times last year's earnings. The well-protected $1.60 per share dividend provides a yield of 4.5% or a return much better than average under prevailing market conditions. The stock ranks as an investment-type issue. In addition, it offers the prospect of moderate growth, both as a railroad and from its oil and mineral properties.

### COMPARATIVE BALANCE SHEET ITEMS

| ASSETS | December 31 1957 | 1958 | Change |
|---|---|---|---|
| | (000 omitted) | | |
| Road, Equipment & Prop. | $1,544,575 | $1,566,083 | +$21,508 |
| Accr. Deprec. & Amort., etc. | CR 370,830 | CR 377,362 | + 6,532 |
| Invest. & Spec. Funds | 134,583 | 159,474 | + 24,891 |
| Sec. Inv. Res. Adj. | CR 23,064 | CR 21,974 | — 1,090 |
| Cash & Marketable Secur. | 110,186 | 114,527 | + 4,341 |
| Receivables | 51,963 | 53,811 | + 1,848 |
| Materials & Supplies | 30,981 | 24,370 | — 6,611 |
| Other Curr. Assets | 1,115 | 2,041 | + ,926 |
| TOTAL CURRENT ASSETS | 194,245 | 194,749 | + ,504 |
| TOTAL ASSETS | $1,486,521 | $1,529,659 | +$43,138 |
| **LIABILITIES** | | | |
| Preferred Stock | $ 99,543 | $ 99,543 | $ — |
| Common Stock | 222,291 | 228,620 | + 6,329 |
| Long Term Debt | 164,551 | 161,872 | — 2,679 |
| Due Affil. Cos. | 21,220 | 21,415 | + ,195 |
| Reserves | 42,197 | 43,158 | + ,962 |
| Adj. Secur. Bal. | 39,585 | 39,585 | — |
| Surplus | 781,471 | 821,992 | + 40,521 |
| TOTAL CURRENT LIABILITIES | 108,553 | 106,131 | — 2,422 |
| TOTAL LIABILITIES | $1,486,521 | $1,529,659 | + 43,138 |
| WORKING CAPITAL | $ 85,692 | $ 88,618 | +$ 2,926 |

# 1959
# A Recovery Year for THE TEXTILES

► And the position of the individual companies looking to 1960

By J. D. HALLIDAY

ALTHOUGH the historic cycles of the textile industry have not been as long-lived or well-defined as, say the twelve-year cycle of the Chinese calendar, nevertheless, a certain pattern has been noted, especially during the postwar period. Textile activity, as measured by mill fiber consumption, would rise from the valley to the peak during a twelve-month period, taking two years to complete the circuit. The spell was broken in 1957, however, when the anticipated upturn failed to materialize, and the industry continued its downward slide until the last quarter of 1958, by which time operations had been in an unsatisfactory trend for over two years.

While a definite improvement in the industry was not assured in the late months of last year, there were some signs (e.g., an upturn in business activity, some firming of textile prices and low retail inventories) which strengthened the optimistic views of some in the industry and in the investment field. Mill margins (the difference between the cost of a pound of cotton and the mill selling price of the cloth produced from it) began to turn up last July and, based on past history, this indicated a change for the better in mill production and general industrial activity.

The picture at the present time appears to be bearing out the good news prophesied by the aforementioned indicators. Mills producing cotton goods and synthetic fabrics, apparel manufacturers, and retail outlets are all showing improved sales and earnings and this trend is expected to continue through the balance of 1959. Mitigating the rise in earnings to some extent are higher labor costs resulting from wage increases effected by some of the major companies early this year. On balance, however, price increases and higher operating rates will probably more than offset the rise in wages. Dividends in some cases have already been increased, reflecting the favorable prospects and, barring any unforeseen occurrences, many other companies will

## Position of Leading Textile Companies

| | 1st Quarter Net Sales 1958 (Millions) | 1st Quarter Net Sales 1959 (Millions) | 1st Quarter Net Earnings Per Share 1958 | 1st Quarter Net Earnings Per Share 1959 | Full Year Earned Per Share 1957 | Full Year Earned Per Share 1958 | Full Year Dividend Per Share 1958 | Full Year Dividend Per Share Indi 1959 * | Price Range 1958-1959 | Recent Price | Div. Yield % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| American Enka Corp. | $15.4[1] | $23.7[1] | $ .27[1] | $1.05[1] | $ .93 | $1.48 | $ .25 | $1.40 | 38¼-14⅛ | 36 | 3.9% |
| American Viscose | 49.3 | N.A. | .13 | N.A. | 1.65 | 1.36 | 1.50 | 1.00 | 50⅝-25½ | 46 | 2.1 |
| Anderson Clayton & Co. | 450.2[2] | 355.3[2] | 1.94[2] | 1.84[2] | 4.76[3] | 2.49[3] | 2.00 | 2.00 | 41½-33 | 36 | 5.5 |
| Beaunit Mills | 76.2[5] | 742[5] | 1.19[5] | .94[5] | 1.61 | 1.65[4] | 1.12½ | 1.00 | 24⅝-10½ | 22 | 4.5 |
| Bigelow-Sanford | 15.8 | 16.8 | d.73 | .23 | .21 | d1.91 | — | — | 17⅞- 6⅞ | 15 | — |
| Burlington Indust. | 162.4 | 195.1 | .22 | .66 | 1.64 | 1.21 | .70 | 1.00 | 19⅝- 9½ | 19 | 5.2 |
| Cannon Mills | N.A. | N.A. | N.A. | N.A. | 6.30 | 5.31 | 3.00 | 3.00 | 67¼-47½ | 65 | 4.6 |
| Celanese Corp. | 48.9 | 58.8 | .23 | .64 | 1.94 | 2.05 | 1.00 | 1.00 | 36½-12 | 36 | 2.7 |
| Cluett Peabody | 22.8 | 23.8 | .48 | .58 | 4.17 | 2.59 | 2.25 | 2.00 | 63 -32 | 59 | 3.3 |
| Cone Mills | 37.1 | 45.5 | .18 | .27 | 1.24 | .81 | .80 | .80 | 16½- 9⅜ | 15 | 5.3 |
| Dan River Mills | 40.6 | 42.6 | .27 | .27 | 1.22 | 1.24 | .80 | .80 | 15¼- 9⅛ | 15 | 5.3 |
| Firth Carpet | 6.2 | 6.9 | .02 | .32 | 1.40 | d.24 | .07 | — | 13¾- 6½ | 12 | — |
| Industrial Rayon | 11.6 | 15.4 | d.13 | .14 | .65 | d1.65 | — | — | 25½-14 | 24 | — |
| Lees (James) & Sons | 16.1 | 19.6 | .36 | 1.38 | 4.30 | 4.55 | 2.00 | 2.00[8] | 55½-25 | 48 | 4.1 |
| Lowenstein (M.) | 116.8 | 110.4 | .21 | .30 | 1.07 | .57 | .70 | .60 | 18¼-11⅜ | 18 | 3.3 |
| Mohasco Industries | 22.2 | 25.7 | .22 | .98 | .96 | 1.90 | .10 | .20 | 18⅜- 4⅝ | 15 | 1.3 |
| Pepperell Mfg. | N.A. | N.A. | N.A. | N.A. | 5.18[6] | 3.79[6] | 3.50 | 3.50 | 66¾-47 | 65 | 5.4 |
| Reeves Bros., Inc. | 39.5[7] | 42.4[7] | .20[7] | .38[7] | .76[6] | .11[6] | .31 | .25 | 19¼- 6 | 19 | 1.3 |
| Reliance Mfg. Co. | 9.0 | 13.5 | d.22 | .93 | 2.44 | N.A. | .75 | — | 23½-16⅛ | 23 | — |
| Stevens (J. P.) & Co. | 84.8 | 95.2 | .35 | .66 | 2.10 | 2.60 | 1.50 | 1.50 | 31 -17½ | 30 | 5.0 |
| United Merch. & Mfg. | N.A. | N.A. | .92[7] | 1.62[7] | 1.66[6] | 1.20[6] | 1.00 | 1.00 | 20¼-10⅞ | 20 | 5.0 |
| Van Raalte Co. | 7.3 | 8.1 | .66 | .97 | 3.26 | 2.72 | 2.00 | 2.00 | 36⅜-21½ | 34 | 5.8 |

*—Based on latest dividend rates.
d—Deficit.
N.A.—Not available.

1—12 weeks ended March 23.
2—6 months ended January 31.
3—Year ended July 31.
4—Estimated.

5—9 months ended 12/31/57 and 1958.
6—Year ended June 30.
7—9 months ended March 31.
8—Plus stock.

**American Enka:** Improved rayon demand plus advantages from diversification moves should lift earnings materially this year. Better outlook is reflected in recent dividend increase. **C1**

**American Viscose:** Good increases anticipated in both company operations and jointly owned ventures. Further dividends from Chemstrand may lead to boost in present rate. **B2**

**Anderson, Clayton:** As a cotton merchandiser, earnings trend has been relatively stable. Little change is looked for this fiscal year and shares provide a good yield. **B2**

**Beaunit Mills:** Both Tyrex tire yarn and consumer products sales will show favorable trend this year paving the way for possible dividend increase over intermediate term. **C1**

**Bigelow-Sanford:** Profitable operations have been restored and should be maintained but dividend restoration is doubtful over near term. **C1**

**Burlington Industries:** Diversification has aided company during recession. Dividend was recently increased in line with improved operations. **B1**

**Cannon Mills:** Both earnings and dividends of this sheet and towel manufacturer have shown long-term stability. Present dividend has been in effect since 1950. **B2**

**Celanese Corp.:** Loss of tax credits of previous years have been more than offset by sharply rising earnings. Dividend increase possible later this year. **B1**

**Cluett, Peabody:** Earnings may not be sharply higher this year but stretchable paper adds to long term appeal. No change anticipated in present dividend. **B2**

**Cone Mills:** Company is placing increasing emphasis on converting operations. Good earnings recovery expected this year but near term change in dividend is doubtful. **C1**

**Dan River Mills:** Diversification in cotton field has been effected via merger. Earnings up this year and present dividend should continue. **C1**

**Firth Carpet:** Company is benefitting from use of synthetics in carpet field and a sharp recovery is expected in earnings but issue is highly speculative. **C1**

**Industrial Rayon:** Upturn in auto industry is enhancing prospects this year but resumption of dividends is problematical. Strong financial position offers some investment protection. **C1**

**Lees (James) & Sons:** One of the more conservative issues in the field with a good earnings and dividend record. Gains expected this year could lead to dividend increase. **B2**

**Lowenstein (M):** Significant sales and earnings improvement expected this year. Yield is low for issue of this type but dividend could be increased later this year. **B1**

**Mohasco Industries:** Elimination of preferred arrearages paved the way for common dividends late last year. Tax-loss credits will add to gains anticipated from operations this year. **C1**

**Pepperell Mfg.:** Consumer products have provided relatively stable operations. Regular dividend rate seems secure, but amount of year-end extra is not certain. **B2**

**Reeves Bros., Inc.:** Earnings trend has been very erratic but this integrated company is participating in general industry improvement. A dividend increase is possible. **C1**

**Reliance Mfg.:** Work clothing is a major line of this closely-held company. Profitable operations are expected this year with the possibility that dividends may be resumed. **C1**

**Stevens (J. P.) & Co.:** Rated as one of the top companies in the field, Stevens should show a relatively good earnings trend this year again reflecting the absence of tax payments. The dividend should continue at present levels. **B2**

**United Merch. & Mfgr.:** Diversification plus integrated operations help make company less vulnerable to sharp swings in industry. Outlook is good and an improvement in the dividend should not be ruled out. **B2**

**Van Raalte:** Despite competitive pressures in the hosiery field, earnings have been well maintained. Continuance of dividends at current rate is the minimum expectation. **B2**

**RATINGS:** A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

also boost payments. Despite the sharp gains which have already taken place in the market price of textile shares from the lows of 1958, further appreciation remains a possibility over the balance of this year.

### Industry Background

Using employment as a yardstick, the textile and apparel industry ranks as the second largest, with over two million people directly employed. Size, in fact, has been responsible for a basic problem within the industry — overcapacity. Additional expansion was undertaken during World War II to meet the needs of the Government, thereby adding to the postwar woes. Some 8,000 companies are estimated to be operating in the United States but only a dozen or so account for 20-25% of total output. Competitive pressure is exerted on domestic companies also by foreign producers who are able to sell imported goods at low prices because of cheap labor. Government price supports on cotton have contributed to the mills' dilemma by reducing margins on grey (unfinished) goods.

In spite of these obstacles, the industry has managed to record some very profitable years when a combination of good consumer demand and a rise in industrial activity takes place. Apparel and household goods account for approximately 70% of output while industrial textiles make up the balance. The latter is especially influenced by the automobile industry which uses large amounts of rayon and nylon for tires in addition to upholstery fabrics.

### Favorable Trends

The basic problems of the industry have received increasing attention from management and in those areas where internal improvements were possible significant gains have been made. Technological advances have increased efficiency tremendously and improved machines are constantly being offered by such firms as Draper Corp., Roberts Co., Universal Winding and Whitin Machine Works. Shuttleless looms and the elimination of winding rooms are only two examples of the strides being made by the machinery manufacturers. The move to the south has been successful in reducing costs not only from a labor standpoint, but also in the tax category. Moreover, voluntary cutbacks in production by some of the leaders in the field have served to reduce the supply of goods to a more realistic level and no doubt has played a part in the firming of many prices in recent months.

### Foreign Competition

Foreign competition remains a thorn in the side of the domestic industry and most measures undertaken to alleviate the problem do little more than stem the tide of goods which are "dumped" here annually. Agreements have been made with Japan (one of the major exporters to the United States) under which that country voluntarily limits the amount of its cotton goods exports to our country. A Senate Subcommittee which studied conditions in the textile industry has published a report making recommendations for correcting some of the

## Comprehensive Statisti

| Figures are in millions exept where otherwise stated. | American Enka Corp. |
|---|---|
| **CAPITALIZATION:** | |
| Long Term Debt (Stated Value) | — |
| Preferred Stock (Stated Value) | — |
| No. of Common Shares Outstanding (000) | 1,338 |
| Capitalization | $ 6.7 |
| Total Surplus | $ 70.2 |
| **INCOME ACCOUNT:** Year Ended | 1/5/59 |
| Net Sales | $ 73.5 |
| Deprec., Depletion, Amort., etc. | $ 7.8 |
| Income Taxes | $ 1.6 |
| Interest Charges, etc. | — |
| Balance for Common | $ 1.9 |
| Operating Margin | 4.3% |
| Net Profit Margin | 2.7% |
| Percent Earned on Invested Capital | 2.5% |
| Earned Per Common Share | $ 1.48 |
| **BALANCE SHEET:** Year Ended | 1/5/59 |
| Cash and Marketable Securities | $ 5.4 |
| Inventories, Net | $ 14.5 |
| Receivables, Net | $ 8.0 |
| Current Assets | $ 28.3 |
| Current Liabilities | $ 11.0 |
| Working Capital | $ 17.3 |
| Current Ratio (C. A. to C. L.) | 2.5 |
| Fixed Assets, Net | $ 59.4 |
| Total Assets | $ 87.8 |
| Cash Assets Per Share | $ 4.04 |
| Inventories as Percent of Sales | 19.8% |
| Inventories as % of Current Assets | 51.3% |

*—Statistical data on other leading companies have not been included because fiscal 1959 balance sheet figures have not been released yet.

problems created by foreign imports. Although no benefits of the investigation may be reflected in near-term operations of the industry, the general awareness and the public airing of the problem is encouraging to many in the trade. Another step in the right direction was the narrowing of the difference between the price of cotton sold to foreign manufacturers and the higher price paid by American mills for the same product. This change was accomplished under the Amended Farm Bill of 1958 and corrects (to some degree) the inequities of two-priced cotton.

### The Present Situation

The upturn noted in the industry last fall was accelerated by the general improvement in business activity and the rise in textile mill sales and earnings is emphatically illustrated in the table below:

**RATE OF GAIN (PERCENT)**

| | Sales | | Net Before Taxes | | Net After Taxes | |
|---|---|---|---|---|---|---|
| | 4Q 1957 to 4Q 1958 | 3Q 1958 to 4Q 1958 | 4Q 1957 to 4Q 1958 | 3Q 1958 to 4Q 1958 | 4Q 1957 to 4Q 1958 | 3Q 1958 to 4Q 1958 |
| Text. Mill Prod. | 5% | 8% | 51% | 15% | 76% | 14% |
| Nondur. Goods | 5 | 3 | 15 | 3 | 12 | 8 |
| All manufact. | 2 | 7 | 16 | 20 | 14 | 22 |

Source: Federal Trade Commission — Securities and Exchange Commission.

Profits should continue to show a satisfactory trend based on recent mill margin figures. In April, the

## Comparing the Position of Leading Textile Companies *

| American Viscose | Bigelow-Sanford Carpet | Burlington Industries | Cannon Mills | Celanese Corp. of America | Cone Mills | Industrial Rayon | (James) Lees & Sons | Lowenstein (M.) & Sons | Stevens (J. P.) & Co. |
|---|---|---|---|---|---|---|---|---|---|
| $ 136.3 | $ 17.5 | $ 147.1 | — | $ 88.0 | $ 15.8 | — | $ 7.4 | $ 80.5 | $ 57.6 |
| — | $ 3.2 | $ 32.4 | — | $ 103.2 | $ 3.9 | — | $ 2.3 | — | — |
| 5,096 | 992 | 8,519 | 2,029[1] | 5,844 | 3,438 | 1,851 | 817 | 2,838 | 4,206 |
| $ 147.3 | $ 28.0 | $ 188.0 | $ 51.8 | $ 193.5 | $ 54.0 | $ 1.8 | $ 4.7 | $ 83.3 | $ 121.2 |
| $ 53.6 | $ 9.0 | $ 215.1 | $ 78.9 | $ 126.3 | $ 74.4 | $ 69.1 | $ 35.9 | $ 79.7 | $ 149.2 |
| 12/31/58 | 12/31/58 | 9/27/58 | 12/31/58 | 12/31/58 | 12/31/58 | 12/31/58 | 12/31/58 | 12/31/58 | 11/1/58 |
| $ 172.9 | $ 63.2 | $ 651.4 | $ 191.8 | $ 223.7 | $ 165.8 | $ 47.8 | $ 68.1 | $ 285.3 | $ 386.3 |
| — | $ 2.3 | $ 19.7 | $ 2.9 | $ 19.6 | $ 4.9 | $ 4.0 | $ 1.6 | $ 4.8 | $ 10.0 |
| $ 22.5 | — | $ 13.8 | $ 12.8 | $ 13.6 | $ 2.8 | — | $ 3.2 | $ 2.5 | $ .5 |
| — | $ .8 | $ 5.2 | — | $ 3.2 | $ 1.0 | — | — | $ 4.0 | $ 3.4 |
| $ 18.3 | $ d 1.7 | $ 10.3 | $ 10.7 | $ 11.9 | $ 2.7 | $ d 3.0 | $ 3.7 | $ 3.0 | $ 10.9 |
| — | — | 4.9% | 11.1% | 13.7% | 3.9% | — | 11.1% | 3.3% | 3.2% |
| 10.5% | — | 1.8% | 5.5% | 7.4% | 1.7% | — | 5.5% | 1.0% | 2.7% |
| 28.4% | — | 4.6% | 8.2% | 7.2% | 1.1% | — | 9.3% | 3.6% | 5.1% |
| $ 1.36 | $ d 1.91 | $ 1.21 | $ 5.31 | $ 2.05 | $ .81 | $ d 1.65 | $ 4.55 | $ 1.07 | $ 2.60 |
| 12/31/58 | 12/31/58 | 9/27/58 | 12/31/58 | 12/31/58 | 12/31/58 | 12/31/58 | 12/31/58 | 12/31/58 | 11/1/58 |
| $ 21.4 | $ 3.6 | $ 23.4 | $ 55.2 | $ 32.2 | $ 7.2 | $ 17.8 | $ 3.2 | $ 4.6 | $ 12.7 |
| $ 21.3 | $ 21.7 | $ 158.3 | $ 43.7 | $ 34.9 | $ 50.4 | $ 13.5 | $ 16.8 | $ 84.8 | $ 107.5 |
| $ 22.3 | $ 8.6 | $ 102.8 | $ 21.1 | $ 22.0 | $ 19.2 | $ 6.2 | $ 6.6 | $ 31.8 | $ 66.5 |
| $ 65.1 | $ 34.4 | $ 287.8 | $ 120.0 | $ 93.9 | $ 76.9 | $ 40.8 | $ 27.2 | $ 121.4 | $ 186.9 |
| $ 33.9 | $ 5.9 | $ 55.9 | $ 21.1 | $ 17.9 | $ 14.2 | $ 4.9 | $ 8.8 | $ 16.7 | $ 46.1 |
| $ 31.2 | $ 28.5 | $ 231.9 | $ 98.9 | $ 76.0 | $ 62.7 | $ 35.9 | $ 18.4 | $ 104.7 | $ 140.8 |
| 1.9 | 5.8 | 5.0 | 5.6 | 5.2 | 5.4 | 8.1 | 3.1 | 7.2 | 4.0 |
| $ 181.0 | $ 25.6 | $ 183.0 | $ 30.7 | $ 163.5 | $ 62.4 | $ 34.1 | $ 30.6 | $ 56.2 | $ [illegible] |
| $ 246.9 | $ 60.9 | $ 483.6 | $ 152.3 | $ 340.0 | $ 145.3 | $ 75.9 | $ 57.9 | $ 180.6 | $ 316.0 |
| $ 4.19 | $ 3.65 | $ 2.76 | $ 27.21[1] | $ 5.51 | $ 2.10 | $ 9.65 | $ 3.94 | $ 1.63 | $ 3.02 |
| 12.3% | 34.3% | 24.9% | 22.7% | 15.6% | 30.5% | 28.3% | 24.6% | 29.7% | 27.8% |
| 32.8% | 63.1% | 55.0% | 36.4% | 37.2% | 65.5% | 33.0% | 61.7% | 59.9% | 59.5% |

d—Deficit.

1—Includes 992,627 class 'B' stock.

spread amounted to 27.18 cents a pound, the widest since January 1957 and materially better than the low of 21.65 cents recorded in mid-1957. Prospects for maintenance of the present high rate is favorable in view of reduced price supports on the current cotton crop. The margin figure is especially interesting because it reflects higher wages placed in effect during the first quarter of this year. (The wage pattern has completely reversed itself during the past twelve months — last year, the unions signed straight one-year extensions of their contracts.) Another sign of strength is in the Agriculture Department's recent announcement that cloth prices rose in April for the tenth consecutive month. Trade reports indicate that backlogs of unfilled orders are growing, and most orders are being booked for third or fourth quarter shipment. Mill inventories are low and most of the orders now being received will be filled from new production.

### Gains In Various Segments

The cotton mills are not the only segment of the industry with a promising outlook, however. Synthetic fiber producers are showing gains based on increased auto production, the popularity of Tyrex tire cord, and the rise in household items such as carpets. The Textile Economics Bureau reported April shipments of rayon and acetate, both cellulosic (derived from cotton linters or wood pulp) fibers, at about 39% above those of April 1958, and the cumulative January-April gain 20% higher than the comparable year-ago period. A similar boost was reported for the non-cellulosic fibers (nylon, Acrilan, Orlon, Dacron, etc.). It is interesting to note the shift that has been taking place in fiber consumption during the past ten years. Natural fiber (cotton, wool, silk) use has declined percentagewise from about 80% of the total a decade ago to approximately 72% at present, acetate and rayon have remained relatively steady at about 20% of total, but the chemical fibers (mainly nylon) have captured almost 10% of the market from 2% during the period mentioned. Although increasing emphasis probably will be placed on man-made fibers in the future, the wider applications of blends (such as Dacron and wool) will lessen the impact of the inroads being made by synthetics. Another factor in favor of the natural fibers is the increasing research by leading textile manufacturers on chemical applications on natural fabrics. For instance, wash-and-wear textiles are a product of such research and development.

Higher prices of unfinished goods are being reflected in the major end-product, clothing, and, coupled with increased buying on the part of the consumer and relatively low retail inventories, apparel manufacturers are expected to better the results of last year.

### To Summarize

1959 seems to be a definite year of recovery for the industry in general and sales and earnings comparisons with 1958 *(Please turn to page 358)*


# FOR PROFIT AND INCOME

### Where They Stand

When you look behind the series of new highs in the industrial stock price averages, the picture is decidedly mixed. Some stock groups have remained under earlier highs variously recorded in 1929, 1946 or within the years 1955-1957. Others have risen far above past tops. Looking at 1959 highs to date — from which several groups have reacted considerably — the gains over prior tops have centered largely in auto parts, building materials, chemicals, cigarettes, electrical equipment and electronics, finance companies, food brands, farm machinery, food stores, office equipment, department stores, steels and tires. Among them, those currently down most from recent highs are cigarettes, electronics and food stores. Among others which have been exceptionally popular, it is difficult to believe that chemicals, food brands, office equipment and tires can continue so widely to outgain the market.

### Others

While gains of others from their 1957 lows range from moderate to wide, they can be called partial recoveries. For instance, highs recorded as far back as 1929 still stand for baking, motion pictures, railroads, rail equipment, utilities and variety stores. Groups for which tops made between 1955 and mid-1957 still stand include aircraft, aluminum, coal, coppers, industrial machinery, metal fabricating, oil and paper.

### Cigarettes

The cigarette stocks had a sizable recent spill, accompanied by a recurrence of some "cancer-scare" talk. There has been a partial recovery up to this writing. The fact is that the market does not repeatedly discount the same thing, and that this group discounted the cancer-scare publicity first by a 1953-1954 decline of about 28%, and thereafter by restricted fluctuation to July, 1957, when the final report on the American Cancer Society's

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1959 | 1958 |
|---|---|---|---|
| Anaconda Co. | Quar. Mar. 31 | $1.52 | $.59 |
| U. S. Borax & Chemical | Quar. Mar. 31 | .33 | .14 |
| Western Union Telegraph | Quar. Mar. 31 | .56 | .32 |
| American Viscose Corp. | Quar. Mar. 31 | .71 | .13 |
| Keystone Steel & Wire | Quar. Mar. 31 | 1.29 | .68 |
| Brunswick-Balke-Collender | Quar. Mar. 31 | .57 | .37 |
| Pepsi-Cola Co. | Quar. Mar. 31 | .32 | .26 |
| Textron Inc. | Quar. April 4 | 1.01 | .03 |
| Timken Roller Bearing | Quar. Mar. 31 | 1.26 | .61 |
| Tung-Sol Electric | 13 weeks Mar. 28 | .78 | .52 |

statistical findings was published. Thereafter, with sales and earnings rising, the group rose about 70% to its 1959 high, thereby catching up with earnings and dividends. In older times these stocks were bought and held primarily for secure income, with above-average market stability. They probably have begun to revert to that status, inviting profit taking by some who bought for the unusual 1957-1959 appreciation. We took the view here earlier this year that the group's appreciation potential had been largely exhausted but that leading issues remained among the best income stocks. They still do.

**Sugar**

Stocks of sugar companies operating in Cuba have been sagging since the present government took over by revolution, anticipating "troubles" of some kind via nationalistic, socialistic policies. They fell further recently on news of "agrarian reform" legislation. The ultimate implications are not clear. Maybe the prospect will not remain so disturbing as it now seems to be, but that could be wishful thinking. We have repeatedly emphasized the risks of buying or holding stocks of companies with a vital interest in unstable, if not unfriendly, Latin-American and Arab countries. Investors and speculators who are now sorry they ignored the obvious Cuban risk are not entitled to too much sympathy.

**Exception**

Since it has sugar-producing properties in Cuba, American Sugar Refining's shares have moved down with the others, falling from a 1959 high of 43⅝ to 32½, before rallying fractionally at this writing. However, profits on Cuban operations were only a fourth of total 1958 record earnings of $4.71 a share. Due to market conditions, this year's earnings probably in any event will be moderately lower. Allowing for benefits from enlarged and improved U. S. refining facilities, the company probably has a normal, or average, earning power in the vicinity of $3.50 a share, even if it got no future return from Cuba. Fairly liberal dividends should continue. Including a recent 60-cent extra, they are at an indicated $2.20 total. We see no need to sell this stock at a depressed price.

**Rail Break-Through**

By rising recently to a new 1959 high, the rail average reaffirmed the basic market uptrend. Its previous penetrations this year did not bring large gains and were promptly followed by reactions. Whether it will be different this time remains to be seen, and could possibly be answered in short order. In 1958 the average rose nearly 73% to a mid-November high of 157.91. Subsequent highs were 167.38 in mid-January, 165.12 (no penetration) on March 5, and 168.92 on April 17. At this writing, the betterment of the latter level is rather modest, the net gain from last November's high about 8%. Nevertheless, the technical implication of rail performance is bullish, even though scope of the further rise is conjectural.

**Selections**

With few exceptions, the most speculative rails have lagged in 1959 to date. Among the better performers over the last six months or so are Atlantic Coast Line, Chesapeake & Ohio, Delaware & Hudson, Great Northern, Nickel Plate, Pittsburgh & Lake Erie, Southern Pacific, Western Maryland and Western Pacific. Some of these could rise further, others could come to the fore. Among the better-grade rails, Atchison and Union Pacific appear somewhat undervalued. Risks at the bottom end of the scale remain high. Among the "in-between" possibilities for worthwile appreciation are Baltimore & Ohio, Illinois Central and Western Maryland.

**Cross-Currents**

Stock groups reflecting better-than-average demand at this writing, aside from rails, are principally: air lines, aluminum, automobiles and auto parts, building materials, coppers, finance companies, machinery, metal fabricating, motion pictures, domestic oils, rail equipment and steels. Groups recently faring poorer than average include aircraft, food stores, drugs, electronics, international oils, meat packing, sulphur.

**Rail Equipments**

A good rebound is assured in 1959 earnings of railroad equipment makers, most of whom also make a variety of other hard goods; the stocks are performing well, but remain generally well under earlier highs. The combination cited offers better-than-average speculative possibilities. Some of the sounder stocks are ACF Industries around 52, American Brake Shoe 54, General Railway Signal 37, Pullman 65, Westinghouse Air Brake 35.

**Loew's**

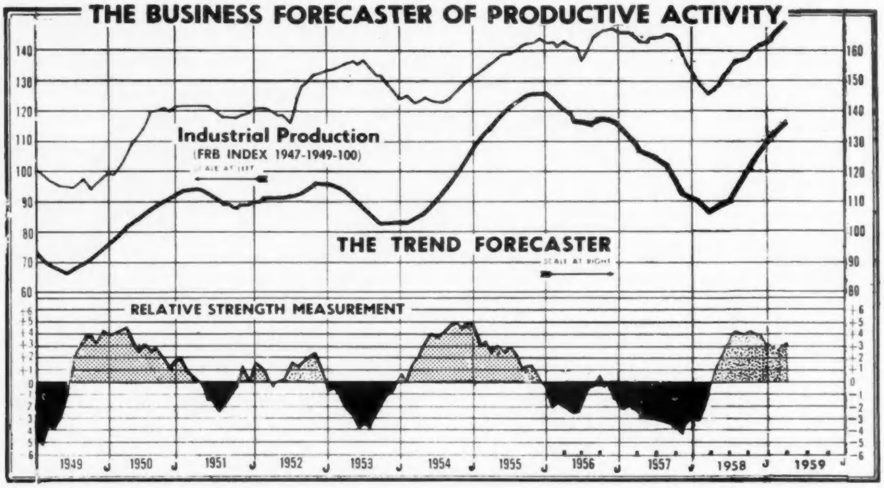
Having separated its theater holdings under consent decree, this company is now a producer of motion pictures and phonograph records. Shows on television, old films, under the familiar Metro-Goldwyn-Mayer name, provide substantial revenue. No longer comparable with past periods, earnings were $1.80 a share for the 28 weeks ended March 12. They might be in the vicinity of $3.25 for the fiscal year ending August 31. Dividends at a conservative rate probably will be inaugurated soon. On the facts cited, the stock is no bargain, as movie is-

*(Please turn to page 364)*

**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1959 | 1958 |
|---|---|---|---|
| A.C.F.-Wrigley Stores | Quar. Mar. 28 | $.20 | $.31 |
| Cunningham Drug Stores | 6 mos. Mar. 31 | 1.68 | 1.92 |
| Aluminium Ltd. | Quar. Mar. 31 | .07 | .18 |
| Eversharp, Inc. | Year Febr. 28 | .45 | 1.21 |
| Schering Corp. | Quar. Mar. 31 | .65 | .85 |
| Smith-Corona Marchant | Quar. Mar. 31 | .07 | .18 |
| Trane Co. | Quar. Mar. 31 | .27 | .68 |
| White (S.S.) Dental Mfg. | Quar. Mar. 31 | .81 | 1.42 |
| Allied Stores Corp. | Year Jan. 31 | 4.18 | 4.33 |
| American Bank Note | Quar. Mar. 31 | .28 | .47 |

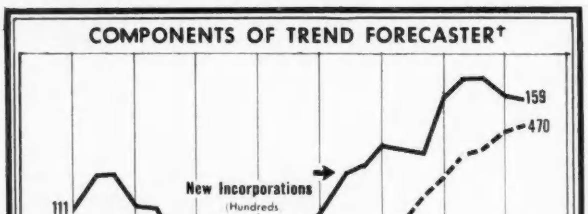
# *the* Business




## Business Trend Forecaster*

**INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.**

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**




(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

**This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.**

**As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.**

**The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.**

***We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.***

### Current Indications of the Forecaster

As of the end of May, the available figures on the components of the Trend Forecaster point to continued strength in business conditions.

On the basis of recent data, stock prices and raw industrial commodity prices have been rising in the second quarter. Average hours worked and new orders in durable goods industries — two of the series which are usually considered especially reliable — have continued to advance. Housing starts have been fluctuating narrowly in recent months, while contract awards for nonresidential structures are in a moderate recovery. New incorporations and business failures (inverted) have shown slight signs of weakness; the former of the two series has recently been declining from an erratic peak which reflected a temporary legislative stimulus to new incorporations several months ago.

The Relative Strength Measurement, after reaching a peak in the vicinity of +4 in the fall of 1958, has now stabilized at a level of about +3 (after adjustment for the decline in new incorporations for the reason described above). At this level it indicates further business improvement once the steel labor negotiations have been settled.

# s Analyst

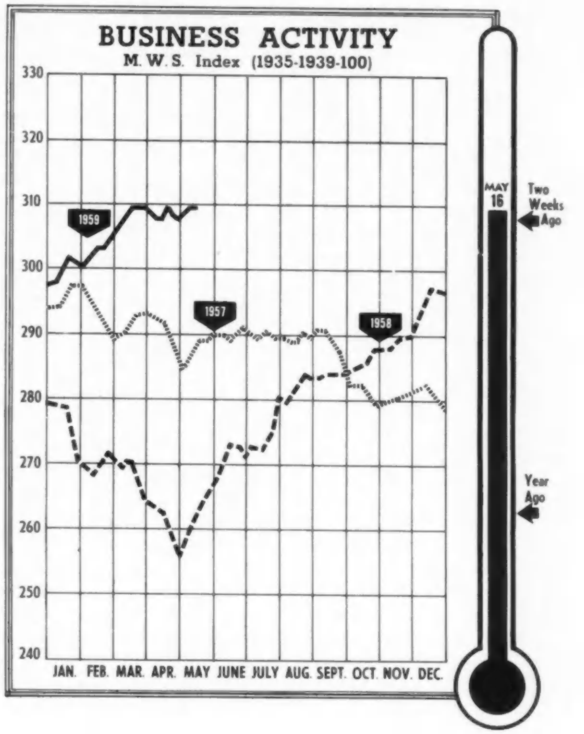
## CONCLUSIONS IN BRIEF

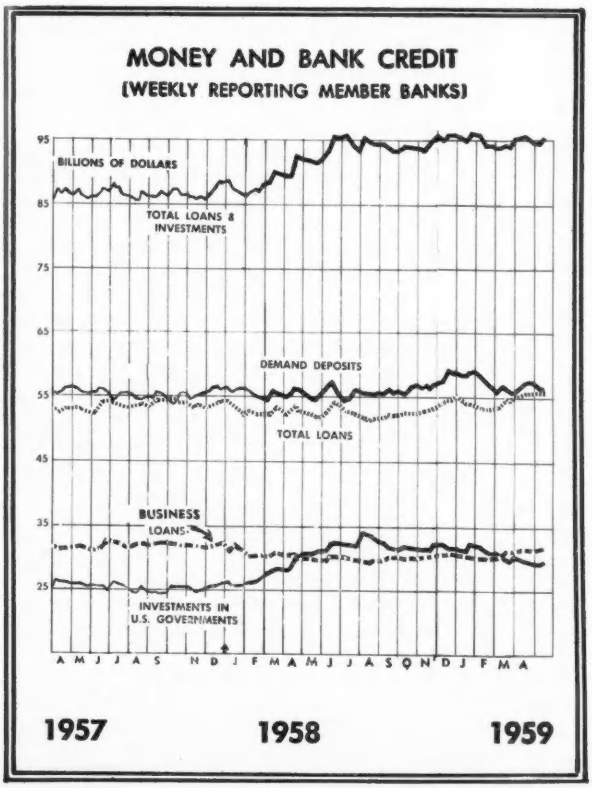
**PRODUCTION**—remains in a moderately rising trend, a little less rapid than in the first quarter. Gains in soft-goods about complete now, but further rises probable in hard-goods lines in remainder of 1959.

**TRADE**—retail volume continues strong, at an $18-billion monthly rate. Autos and appliance volume very good. Prospects: sales to continue at the current rate through the summer.

**MONEY & CREDIT**—has moved toward considerably more tightness. Rates are now rising notably, and member banks are operating with heavy net borrowings from the Reserve system. Look for more tightness in next three months.

**COMMODITIES**—industrial commodity prices continue to strengthen moderately, and farm prices have about stablized after their long decline of late 1958. General commodity price level now rising slowly, but no sharp inflation ahead.




IN the revised statistics for gross national product in the first quarter of 1959, it is noteworthy that the estimate for inventory change has been revised considerably upward — to an annual rate of $5.7 billion. This is about the fastest rate of accumulation since the long stockbuilding of late 1955 and 1956; it is suggestive of the type of business cycle expansion now being enjoyed by general business.

For instance: how long can accumulation at nearly $6 billion a year go on? Answer: for a relatively long period, perhaps as much as a full year. Stocks are now clearly, definitely low relative to sales volume, and inventory-sales ratios in most lines spell out pretty clearly that an extended period of accumulation still lies ahead.

Is this a real inventory boom, such as occurred in late 1955 and early 1956? Answer: probably not. In the first place, world supply of so many commodities is now better than it used to be that the urgency of inventory-building has been lessened. Moreover, inventory demand in 1955 and 1956 was being stimulated by considerable price increases, which provided a speculative reason for inventory growth. While prices are firming somewhat now, there is no indication of the kind of price advance that would stimulate speculative inventory moves.

But the kind of inventory buying that can be looked forward to is certainly stimulative to general business. And it is not confined to steel alone (at present, about 40% of the total rate of inventory accumulation is represented by steel). Retail inventory of goods except automobiles still seems to be conservative; de-

(Please turn to the following page)

# Essential Statistics

| THE MONTHLY TREND | Unit | Month | Latest Month | Previous Month | Year Ago |
|---|---|---|---|---|---|
| **INDUSTRIAL PRODUCTION* (FRB)** | 1947-'9-100 | Apr. | 149 | 147 | 126 |
| Durable Goods Mfr. | 1947-'9-100 | Apr. | 164 | 160 | 131 |
| Nondurable Goods Mfr. | 1947-'9-100 | Apr. | 140 | 139 | 125 |
| Mining | 1947-'9-100 | Apr. | 123 | 122 | 109 |
| **RETAIL SALES*** | $ Billions | Apr. | 18.0 | 17.9 | 16.5 |
| Durable Goods | $ Billions | Apr. | 6.2 | 6.1 | 5.2 |
| Nondurable Goods | $ Billions | Apr. | 11.8 | 11.8 | 11.3 |
| Dep't Store Sales | 1947-'9-100 | Apr. | 139 | 139 | 130 |
| **MANUFACTURERS'** | | | | | |
| New Orders—Total* | $ Billions | Mar. | 30.0 | 29.7 | 24.8 |
| Durable Goods | $ Billions | Mar. | 15.1 | 14.9 | 11.5 |
| Nondurable Goods | $ Billions | Mar. | 14.9 | 14.8 | 13.3 |
| Shipments* | $ Billions | Mar. | 29.1 | 28.5 | 24.9 |
| Durable Goods | $ Billions | Mar. | 14.3 | 13.9 | 11.7 |
| Nondurable Goods | $ Billions | Mar. | 14.7 | 14.6 | 13.3 |
| **BUSINESS INVENTORIES, END MO.*** | $ Billions | Mar. | 86.3 | 85.9 | 88.5 |
| Manufacturers' | $ Billions | Mar. | 50.3 | 49.9 | 52.0 |
| Wholesalers' | $ Billions | Mar. | 11.9 | 11.9 | 12.4 |
| Retailers' | $ Billions | Mar. | 24.1 | 24.1 | 24.1 |
| Dept. Store Stocks | 1947-'9-100 | Mar. | 148 | 150 | 143 |
| **CONSTRUCTION TOTAL** | $ Billions | Apr. | 4.2 | 3.8 | 3.6 |
| Private | $ Billions | Apr. | 2.9 | 2.7 | 2.6 |
| Residential | $ Billions | Apr. | 1.7 | 1.5 | 1.4 |
| All Other | $ Billions | Apr. | 1.2 | 1.2 | 1.2 |
| Housing Starts*—a | Thousands | Apr. | 1390 | 1390 | 983 |
| Contract Awards, Residential—b | $ Millions | Apr. | 1831 | 1541 | 1240 |
| All Other—b | $ Millions | Apr. | 1948 | 1799 | 1641 |
| **EMPLOYMENT** | | | | | |
| Total Civilian | Millions | Apr. | 65.0 | 63.8 | 62.9 |
| Non-Farm | Millions | Apr. | 51.3 | 50.9 | 49.7 |
| Government | Millions | Apr. | 8.1 | 8.1 | 7.9 |
| Trade | Millions | Apr. | 11.1 | 11.1 | 10.9 |
| Factory | Millions | Apr. | 12.1 | 12.1 | 11.3 |
| Hours Worked | Hours | Apr. | 40.3 | 40.2 | 38.6 |
| Hourly Earnings | Dollars | Apr. | 2.23 | 2.22 | 2.11 |
| Weekly Earnings | Dollars | Apr. | 89.87 | 89.24 | 81.45 |
| **PERSONAL INCOME*** | $ Billions | Apr. | 373 | 370 | 350 |
| Wages & Salaries | $ Billions | Apr. | 253 | 250 | 232 |
| Proprietors' Incomes | $ Billions | Apr. | 59 | 59 | 58 |
| Interest & Dividends | $ Billions | Apr. | 33 | 33 | 32 |
| Transfer Payments | $ Billions | Apr. | 26 | 26 | 26 |
| Farm Income | $ Billions | Apr. | 18 | 17 | 19 |
| **CONSUMER PRICES** | 1947-'9-100 | Apr. | 123.9 | 123.7 | 123.5 |
| Food | 1947-'9-100 | Apr. | 117.6 | 117.7 | 121.6 |
| Clothing | 1947-'9-100 | Apr. | 107.0 | 107.0 | 106.7 |
| Housing | 1947-'9-100 | Apr. | 128.7 | 128.7 | 127.7 |
| **MONEY & CREDIT** | | | | | |
| All Demand Deposits* | $ Billions | Apr. | 112.8 | 112.2 | 107.2 |
| Bank Debits*—g | $ Billions | Apr. | 93.7 | 89.4 | 81.3 |
| Business Loans Outstanding—c | $ Billions | Apr. | 31.2 | 31.2 | 30.1 |
| Instalment Credit Extended* | $ Billions | Mar. | 3.7 | 3.8 | 3.2 |
| Instalment Credit Repaid* | $ Billions | Mar. | 3.4 | 3.5 | 3.4 |
| **FEDERAL GOVERNMENT** | | | | | |
| Budget Receipts | $ Billions | Mar. | 8.4 | 6.6 | 9.5 |
| Budget Expenditures | $ Billions | Mar. | 6.5 | 6.3 | 5.7 |
| Defense Expenditures | $ Billions | Mar. | 3.9 | 3.6 | 3.5 |
| Surplus (Def) cum from 7/1 | $ Billions | Mar. | (11.0) | (12.9) | (3.4) |

## PRESENT POSITION AND OUTLOOK

partment store inventories are also moderate. Wholesale inventories are roughly 10% too low for current sales levels, and manufacturing inventories look about $5 billion too low. Inventory accumulation, one of the main present strengths of business conditions, thus still has a course to run.

* * *

**PERSONAL INCOME,** after a slow rise in late 1958, has been climbing sharply in early 1959; since last December, the annual rate of personal income has risen by about $13 billion. The great bulk of this increase has come in labor incomes as usual; this category of income is up about $10 billion thus far in 1959. Other big gainer: an increase of about $1 billion for net incomes of unincorporated business enterprises. Just holding their own have been stockholders, farmers, and owners of rental properties. Interest incomes of individuals have risen only fractionally.

The outlook for personal income remains good throughout the remainder of 1959. Wage incomes are very likely to continue to advance, reflecting both higher employment and some increase in wage rates. Dividend payments are also likely to rise, and interest payments to individuals will doubtless climb smowhat along with interest rates themselves.

* * *

**PRODUCTION ROUNDUP;** by industry, this is how the production trend stands as of the middle of the second quarter.

Among durables industries, output of primary metals is back to the imposing peak reached in 1957, mainly as a result of forced-draft operations in the steel industry to beat the strike deadline. Machinery production is still about 7% below the record highs of 1957 and 1956, mainly reflecting the slow pickup in industrial machinery business. Production activity in many specialized machinery lines, such as office and store machinery, is already back at a new peak. Both lumber products and "fabricated metals" industries, which serve the building industry in large measure, are in the area of their 1957 operating rates.

Among soft goods, on the other hand, virtually every industry is at record levels. The paper industry is working about 6% higher than its average rate in 1957; textile and ap-

# and Trends

## QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

**In Billions of Dollars—Seasonally Adjusted, at Annual Rates**

| SERIES | 1959 Quarter I | 1958 Quarter IV | 1958 Quarter III | 1958 Quarter I |
|---|---|---|---|---|
| **GROSS NATIONAL PRODUCT** | 467.0 | 453.0 | 439.8 | 427.1 |
| Personal Consumption | 300.5 | 295.9 | 291.5 | 286.2 |
| Private Domestic Invest. | 70.2 | 61.6 | 54.5 | 50.9 |
| Net Foreign Investment | 0.3 | 0.4 | 1.7 | 1.7 |
| Government Purchases | 96.6 | 95.2 | 92.0 | 88.3 |
| Federal | 54.3 | 54.2 | 52.2 | 49.7 |
| State & Local | 42.3 | 41.0 | 39.9 | 38.6 |
| **PERSONAL INCOME** | 365.7 | 359.5 | 358.6 | 348.3 |
| Tax & Nontax Payments | 44.8 | 43.7 | 43.5 | 42.3 |
| Disposable Income | 320.9 | 315.8 | 315.1 | 306.1 |
| Consumption Expenditures | 300.5 | 295.9 | 291.5 | 286.2 |
| Personal Saving—d | 20.4 | 19.9 | 23.6 | 19.9 |
| **CORPORATE PRE-TAX PROFITS** | — | 45.2 | 37.9 | 31.7 |
| Corporate Taxes | — | 23.0 | 19.3 | 16.1 |
| Corporate Net Profit | — | 22.2 | 18.6 | 15.5 |
| Dividend Payments | 12.5 | 11.8 | 12.5 | 12.5 |
| Retained Earnings | — | 10.4 | 6.1 | 3.0 |
| **PLANT & EQUIPMENT OUTLAYS** | 31.2 | 30.0 | 29.6 | 32.4 |

## THE WEEKLY TREND

| | Unit | Week Ending | Latest Week | Previous Week | Year Ago |
|---|---|---|---|---|---|
| MWS Business Activity Index* | 1935-'9-100 | May 16 | 309.9 | 309.2 | 263.8 |
| MWS Index—per capita* | 1935-'9-100 | May 16 | 228.0 | 228.6 | 197.4 |
| Steel Production | % of Capacity | May 23 | 94.4 | 92.9 | 56.4 |
| Auto and Truck Production | Thousands | May 23 | 169 | 172 | 113 |
| Paperboard Production | Thousand Tons | May 16 | 323 | 314 | 269 |
| Paperboard New Orders | Thousand Tons | May 16 | 293 | 332 | 240 |
| Electric Power Output* | 1947-'49-100 | May 16 | 254.5 | 255.1 | 225.4 |
| Freight Carloadings | Thousand Cars | May 16 | 694 | 677 | 561 |
| Engineering Constr. Awards | $ Millions | May 18 | 468 | 416 | 588 |
| Department Store Sales | 1947-'9-100 | May 16 | 137 | 158 | 126 |
| Demand Deposits—c | $ Billions | May 13 | 56.2 | 56.2 | 54.7 |
| Business Failures | Number | May 14 | 311 | 265 | 327 |

## PRESENT POSITION AND OUTLOOK

parel production is almost 10% higher than in 1957, as are chemicals and petroleum products. Even the relatively stable food industry is up about 6%. Consumer durables output generally is about 3% above 1957.

* * *

**THE CONSTRUCTION TREND**; if you watch it in terms of the dollar value of construction work put in place each month, it seems at least to have flattened out. And even the private total within the aggregate has stopped rising in recent months, after having risen extraordinarily rapidly in late 1958.

Housing starts, too, have evidently stopped rising, after a sharp expansion that ran almost throughout 1958. In the latest figures, the starts rate has clung very close to the 1.4 million annual rate experienced in the late months of 1958, but has not surpassed it. It seems to be the consensus of analysis of the housing market that the starts rate will stay in the 1.4 million vicinity for several more months, and then begin to drift downward.

In recent months, the level of VA appraisal requests and FHA applications has run about as high as in late 1955 and early 1956, a period which was followed by a starts rate in the range of 1.1-1.2 billion and such a rate is a likely level for late 1959.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

| No. of Issues (1925 Cl.—100) | 1959 Range High | 1959 Range Low | 1959 May 15 | 1959 May 22 |
|---|---|---|---|---|
| 300 Combined Average | 478.7 | 436.9 | 477.2 | 478.7H |
| 4 Agricultural Implements | 440.0 | 356.2 | 426.0 | 440.0H |
| 3 Air Cond. ('53 Cl.—100) | 137.2 | 125.0 | 132.3 | 134.8 |
| 10 Aircraft ('27 Cl.—100) | 1375.1 | 1191.0 | 1375.1 | 1350.6 |
| 7 Airlines ('27 Cl.—100) | 1429.4 | 1079.6 | 1329.5 | 1329.5 |
| 4 Aluminum ('53 Cl.—100) | 456.6 | 392.0 | 435.1 | 456.6H |
| 5 Amusements | 239.1 | 200.5 | 239.1 | 233.3 |
| 6 Automobile Accessories | 489.7 | 413.4 | 489.7 | 489.7 |
| 6 Automobiles | 113.8 | 93.7 | 113.8 | 113.8 |
| 4 Baking ('26 Cl.—100) | 41.3 | 38.7 | 39.4 | 39.8 |
| 4 Business Machines | 1356.4 | 1225.9 | 1330.3 | 1356.4H |
| 6 Chemicals | 801.6 | 692.9 | 801.6 | 794.8 |
| 4 Coal Mining | 34.5 | 28.1 | 33.6 | 33.9 |
| 4 Communications | 203.8 | 164.6 | 198.9 | 195.6 |
| 9 Construction | 178.9 | 158.7 | 177.4 | 177.4 |
| 7 Containers | 1142.6 | 1021.8 | 1032.8 | 1032.8 |
| 6 Copper Mining | 344.6 | 280.7 | 336.3 | 339.0 |
| 2 Dairy Products | 153.1 | 138.8 | 151.7 | 153.1 |
| 6 Department Stores | 132.0 | 119.1 | 130.9 | 130.9 |
| 5 Drugs-Eth. ('53 Cl.—100) | 467.4 | 379.5 | 451.4 | 431.5 |
| 6 Elec. Eqp. ('53 Cl.—100) | 316.7 | 268.8 | 316.7 | 308.7 |
| 3 Finance Companies | 726.5 | 661.8 | 726.5 | 726.5 |
| 5 Food Brands | 438.1 | 406.3 | 426.2 | 434.1 |
| 3 Food Stores | 279.6 | 257.9 | 257.9 | 257.9 |

| (Nov. 14, 1936 Cl.—100) | High | Low | May 15 | May 22 |
|---|---|---|---|---|
| 100 High Priced Stocks | 295.2 | 268.4 | 295.2 | 294.7 |
| 100 Low Priced Stocks | 655.3 | 585.4 | 651.0 | 655.3H |
| 5 Gold Mining | 996.6 | 853.0 | 962.8 | 996.6H |
| 4 Investment Trusts | 190.6 | 179.7 | 179.7 | 179.7 |
| 3 Liquor ('27 Cl.—100) | 1564.6 | 1459.3 | 1459.3 | 1459.3 |
| 8 Machinery | 545.5 | 452.4 | 532.2 | 545.5H |
| 3 Mail Order | 355.5 | 253.1 | 335.9 | 355.5H |
| 4 Meat Packing | 249.6 | 204.4 | 218.1 | 224.0 |
| 5 Metal Fabr. ('53 Cl.—100) | 207.7 | 181.3 | 202.4 | 204.2 |
| 9 Metals, Miscellaneous | 409.6 | 369.4 | 391.3 | 384.0 |
| 4 Paper | 1275.4 | 1170.1 | 1228.6 | 1240.3 |
| 22 Petroleum | 885.5 | 802.0 | 835.4 | 835.4 |
| 21 Public Utilities | 365.4 | 345.1 | 355.2 | 355.2 |
| 6 Railroad Equipment | 99.8 | 86.9 | 96.3 | 98.9 |
| 20 Railroads | 76.7 | 71.7 | 74.6 | 76.7 |
| 3 Soft Drinks | 651.7 | 599.8 | 640.1 | 651.7 |
| 12 Steel & Iron | 423.0 | 392.5 | 415.4 | 423.0H |
| 4 Sugar | 144.7 | 112.1 | 118.7 | 112.1L |
| 2 Sulphur | 863.3 | 733.4 | 748.7 | 733.4L |
| 11 TV & Electron. ('27 Cl.—100) | 107.1 | 65.6 | 100.9 | 96.0 |
| 5 Textiles | 219.0 | 176.6 | 219.0 | 217.2 |
| 3 Tires & Rubber | 264.9 | 216.1 | 262.8 | 264.9H |
| 5 Tobacco | 191.5 | 172.9 | 184.8 | 184.8 |
| 3 Variety Stores | 350.9 | 331.4 | 344.4 | 337.9 |
| 20 Unclassif'd ('49 Cl.—100) | 275.4 | 239.8 | 270.6 | 275.4 |

H—New High for 1959. L—New Low for 1959.

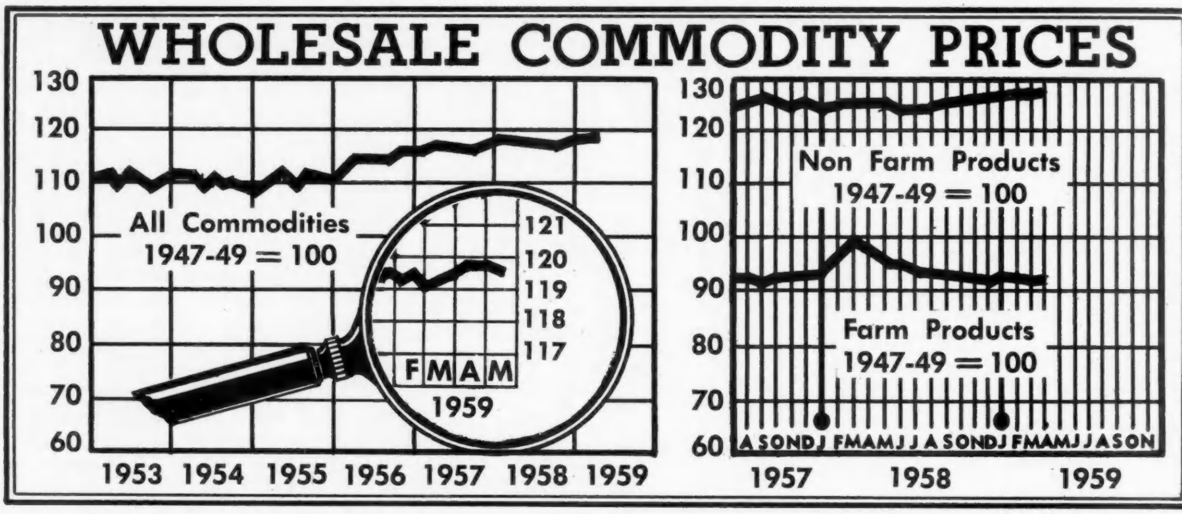
# Trend of Commodities

**SPOT MARKETS**—Sensitive commodities were somewhat higher in the two weeks ending May 22, with raw foodstuffs in the lead. The BLS daily index of 22 leading commodities rose 0.4%, to close at 88.2, just a shade under the high of last November. The raw industrial materials component of the index was only 0.1% higher, although small gains dotted the list. Higher prices were registered for copper scrap, steel scrap, tin, print cloth and rubber. Burlap and wool tops were lower.

Meanwhile, the BLS comprehensive weekly price index eased slightly in the two weeks ending May 19, with farm prices in the van, reflecting seasonal crop influences. The index of commodities other than farm products and foods lost 0.1% and is still failing to reflect any inflationary pressures.

**FUTURES MARKETS**—Commodity futures again followed divergent courses in the two weeks ending May 22. Farm-oriented products were mostly lower, with wheat, oats, lard, cotton and wool tops, all declining. Gains were registered by copper, zinc, lead, hides and cocoa.

Wheat futures continued to give ground in the period under review with the Sepember option losing 1½ cents, to close at 187. Congressional action in passing bills to put a ceiling on the size of individual support loans was regarded bearishly. Crop weather news has been generally favorable for growing and the harvesting of winter wheat will soon be in full swing. First receipts of the 1959 crop came in mid-May and harvesting in Kansas is expected to start early in June. The harvest season usually prevents wheat futures from making worthwhile advances and could put further pressure on prices.



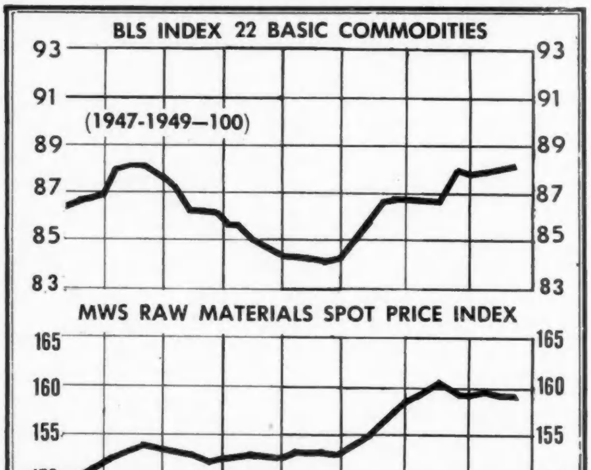

| BLS PRICE INDEXES 1947-1949—100 | Date | Latest Date | 2 Weeks Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| All Commodities | May 19 | 119.5 | 119.6 | 119.5 | 60.2 |
| Farm Products | May 19 | 90.6 | 91.4 | 98.5 | 51.0 |
| Non-Farm Products | May 19 | 127.9 | 128.0 | 125.3 | 67.0 |
| 22 Sensitive Commodities | May 22 | 88.2 | 87.8 | 85.8 | 53.0 |
| 9 Foods | May 22 | 82.7 | 82.0 | 92.6 | 46.5 |
| 13 Raw Ind'l. Materials | May 22 | 92.0 | 91.9 | 81.2 | 58.3 |
| 5 Metals | May 22 | 94.5 | 93.8 | 82.8 | 54.6 |
| 4 Textiles | May 22 | 78.7 | 78.8 | 76.6 | 56.3 |

**MWS SPOT PRICE INDEX**
**14 RAW MATERIALS**
**1923-1925 AVERAGE—100**
**AUG. 26, 1939—63.0 Dec. 6, 1941—85.0**

| | 1959 | 1958 | 1953 | 1951 | 1941 |
|---|---|---|---|---|---|
| High of Year | 160.5 | 154.1 | 162.2 | 215.4 | 85.7 |
| Low of Year | 152.1 | 146.5 | 147.9 | 176.4 | 74.3 |
| Close of Year | | 152.1 | 152.1 | 180.8 | 83.5 |

**DOW-JONES FUTURES INDEX**
**12 COMMODITIES**
**AVERAGE 1924-1926—100**

| | 1959 | 1958 | 1953 | 1951 | 1941 |
|---|---|---|---|---|---|
| High of Year | 152.7 | 159.0 | 166.8 | 215.4 | 84.6 |
| Low of Year | 144.2 | 147.2 | 153.8 | 174.8 | 55.5 |
| Close of Year | | 147.6 | 166.5 | 189.4 | 84.1 |



## Have Utilities Discounted Growth Prospects?

(Continued from page 335)

present reserves seem somewhat on the high side (during World War II reserves were much smaller). Part of our present reserve may in fact be considered as a special defense reserve, in case some plants are bombed out in a future war.

J. E. Corette, then President of the Edison Electric Institute, in an address before the annual convention in April *estimated that gross plant would increase in the next decade 115% as the result of adding some $46 billion of new investment to the 1958 investment of $40 billion.* Revenues should increase 135% — from $8.5 billion to about $20 billion. These projections assume that there will be no major war and that the free enterprise system as we know it today — will continue; they also recognize the inflation factor.

### The Practical Factors In Air Conditioning

While 1959 kwh sales are showing a gratifying increase, due to continued steady increase in residential load and a sharp recovery in industrial sales, the industry is somewhat concerned about the effects of air-conditioning sales. Formerly peak loads occurred in winter in most areas, but now the use of air-conditioning has created a summer peak for many southern companies in excess of the Christmas-time load. With a sudden advance in temperature, the sharp rise in use of air-conditioners will call for huge additional current for perhaps a very short time. The idea is now gaining ground in the industry that this business is not very profitable unless it can be balanced by a heating load in the winter. Thus Florida Power Corp. and other companies are pushing the use of heat pumps.

Heat pumps operate less efficiently in northern areas although a few are in use. However the idea of electric heating through use of other devices — resistance heaters, wall panels, baseboards, etc. — is being promoted. At present only about 1% of our 50 million residential and rural customers have *central* heating and cooling, and only 11% have installed room air-conditioners. Thus there is a big field here for expansion, although competition from the gas utilities is now increasing. Vice-President Witting of Westinghouse Electric thinks that by 1968 we should have over two million electrically heated homes and by 1978 eight million.

Moreover there are big opportunities for increasing the sales of electricity by regulating humidity in the home, according to Vice-President Wallace of Georgia Power Company, who gave a talk at the EEI Convention on "Climate Control in Load Growth". Most air-conditioning units fail to control humidity during the moderate and cooler hours when cooling is considered unnecessary; and not many heat pumps adequately control humidity at night. A device which can operate at reduced capacity at night is needed, and it should also be able to re-heat the air to room temperature if necessary.

The sales possibilities in future

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

### Beatrice Foods Co.

*"You have stated in your publication that the food industry is a stable industry also offering some growth prospects. I would be interested in receiving recent data on Beatrice Foods."*

*E.A., Colorado Springs, Colo.*

Beatrice Foods is one of the largest companies in the dairy field. It has also achieved good diversification through non-dairy products and services.

Sales increased to $385,449,644, a gain of $31,477,657 from the preceding year's record total. Net earnings were $8,862,121, an increase of $1,260,443.

Net earnings, after dividends on preferred shares outstanding, were equivalent to $3.65 per share on 2,322,658 common shares outstanding at the end of the fiscal year, compared to $3.52 per share on 2,049,181 common shares outstanding at the end of the previous year.

The company also attained new peaks in virtually every other phase of operations including bottled milk and ice cream sales, working capital, stockholder equity and dividends paid.

Beatrice further strengthened its financial position by increasing working capital by $8,296,944 to $44,822,972. The ratio of current assets to current liabilities increased moderately last year. It was the 14th consecutive year in which the company has shown an increase in working capital. The book value of each common share increased from $32.56 to $34.60.

The company's continuous research and development program has been productive of new specialties for bulk sales to the bakery, institutional and prepared-mix industries. The program also includes development of improved methods for the manufacture of dairy specialties as well as the establishment of standards for the selection of various dairy ingredients. Thus, the outlook for the current year continues favorable.

Current quarterly dividend is 45 cents per share and the indicated dividend yield is rather modest.

### Long Island Lighting Co.

*"Please forward statistical information covering the operations of Long Island Lighting and also please include dividend rate." B. E., Kenosha, Wisconsin*

Long Island Lighting supplies electricity and gas in a growing residential area of Long Island, New York State.

Revenues for 1958 increased $12 million over 1957. Electric revenue was almost $93 million, up about 8%; gas revenue was $29 million, 22% higher than 1957 but expenses were 10.3% higher in 1958 than in 1957, reflecting additional fuel use and somewhat higher fuel and labor costs. The largest increase in expense over last year was again attributable to taxes which increased in greater proportion than the growth in property and equipment.

Net income was $2 million ahead of 1957 and earnings per average share were $1.62 for 1958 as against $1.44 for 1957.

The chairman of the board E. W. Doebler, stated that the New York Public Service Commission announced recently a policy to be followed by the utilities of New York which has the effect of changing our accounting policy regarding "accelerated depreciation" on property built since 1953. The significant part of the commission's policy as far as we are concerned", he continued, "is to consider as a current expense only the taxes that have to be paid now, and if as a result, higher taxes have to be paid in the future, they will be allowed as an expense at that time.

"We are changing our accounting as of the first of this year, and our first quarter report will be the first to reflect this", according to Mr. Doebler. "On our former basis of accounting our earnings for the 12 months ended March 31, 1959 would have been $1.68 per share, compared with $1.55 reported for the 12 months ended March 31, 1958. On the basis of the new tax accounting required by the Public Service Commission, we will show earnings for the 12 months ended March 31, 1959, of $1.99 a share as compared with $1.86 for the previous 12 months". Mr. Doebler cautioned that it is too early at this time to determine just what the exact consequence of this change in accounting will be so far as the share owner or consumer interests are concerned. Revenue outlook continues favorable. Dividend rate is 30 cents quarterly. END

seem tremendous — although it will be necessary to tempt the customer with special promotional rates. Commonwealth Edison and some other utilities are now quoting a rate of about 1.5¢ which compares with the average U.S. rate of around 2.5¢. Also it will be necessary to do a real sales campaign, perhaps by offering inducements to utility employees to use residential heating themselves as an example. Utilities must also work closely with architects, contractors, and speculative builders, in order to push the "all electric" home.

In the past the utilities have usually been able to counter inflation by greater efficiency and by obtaining rate increases when necessary but any lag in receiving higher rates to compensate for higher costs is a factor of importance under today's conditions. The amount of coal required to generate one kwh has dropped over the year from 3 or 4 pounds to less than a pound and progress is still being made by the use of higher steam temperatures and pressures in the boiler. This requires larger generating units — up to 300 — 500,000 kw capacity compared with 150,000 a few years ago. Line losses are also being reduced — a greater percentage of the electricity produced can now be sold.

Some recent developments may produce economies in what is known as "peak shaving". The peak loads of winter or summer are not of very long duration, yet capacity must be provided to take care them, even if the company's largest unit should be disabled. In the past old and very obsolete units have been customarily used to provide this extra power once or twice a year. But now General Motors is producing a modern diesel (MU-60) of about 2,000 kw capacity; several units can be combined for unit operation if desired. Such units could be placed as near as possible to the load center and would be fully automatic. General Electric has recently announced a gas turbine designed especially for peaking purposes, with about 20,000 kw capacity. The utilities are planning to try out these new types of generating units, which may permit delaying orders for very large and expensive units.

The utilities are still actively at work on a number of atomic power projects, and considerable attention was devoted to this subject at the recent Edison Electric Institute Convention. The pressurized water reactor in Shippingsport, Pa., is the only commercial plant yet in operation, and since construction involved a great deal of research and the plant was "built like a watch," the investment was heavy and cost of power is correspondingly high. However other plants now under construction will make a much improved showing and, despite Washington's conservative estimate that atomic power won't be competitive with conventional steam power for another five or ten years, some of the new plants will greatly reduce the spread in overall cost of generation.

The main difficulty has been that, since plans for most of these plants were originally made, the expense of safety requirements has increased and construction wages have skyrocketed. Thus Consolidated Edison's big plant at Indian Point (which the company recently invited some 200 analysts to inspect) will now cost \$100 million compared with the \$90 million estimate a year ago and lower previous figures. The cost of generating power (reduced by adding a large conventional superheater) is now figured at about 14 mills. per kwh of which about half would be fixed charges.. The plant is expected to go into operation in April 1961.

In New England where the cost of coal is high because of heavy freight charges, the Yankee Atomic plant is expected to make a reasonably good (but not fully competitive) showing. The big plant in Illinois being built by Commonwealth Edison and others is of the boiling-water reactor type which is considered more efficient. When this plant was originally planned both General Electric, the builder, and Commonwealth claimed that it would be competitive but the increase in construction costs has now ended this claim. The large Fermi plant in lower Michigan, being constructed by a group headed by Detroit Edison, will be a "fast breeder" type; the origin-

For A Study of The Natural Gas Industry In Depth

See Our Next Issue

al cost of power may be on the high side, but experience with this type of plant will prove valuable for the future since it will produce about as much atomic fuel as it consumes.

In California, Pacific Gas & Electric and GE have built a small boiling-water reactor which has proved highly successful and a larger plant is now under construction; Pacific Gas claims this will be competitive with high-cost coal in this particular area.

There are several encouraging developments in the atomic energy field to offset disappointment over rising costs. Congress and the Atomic Energy Commission are now getting along better and it looks as though the utilities can continue in their present role as builders while the Commission will remain active in research and in special projects. There is not much new to report on the fusion process, but a break-through is reported on a new method to turn heat directly into electric current; if this can be worked out it would eliminate much plant cost and lower overall generating costs.

In the regulatory field the utilities have been generally successful in obtaining rate increases, although in some cases there have been delays and the amounts allowed have been less than requested. Most of the commissions now recognize that because of rising interest rates, increasing costs and "regulatory lag", a rate of return somewhat higher than the traditional 6% is now required. Quite an issue is developing over what should be the proper accounting for deferred tax as resulting from the use of accelerated depreciation in tax returns, which was permitted by the 1954 Tax Code. These "savings" are now increasing fairly rapidly since they apply to all new property, assuming that the utility company decides to use the special methods permitted under the code. In the meantime it is necessary for the analyst and investor to keep track of the accounting method used by individual companies, since this may affect the reported share earnings to an important degree.

**Some Attractive Situations**

For the investor who wants yield —with profits more or less incidental — **Commonwealth Edison** seems outstanding. Selling around 62 and paying $2 in cash, the regular yield is only 3.2%. However, the company has declared that its regular policy will be to pay out practically all the additional earnings at the end of each year in the form of a stock dividend of 2% or more, which can easily be cashed without paying excessive brokerage commissions. Thus this prime investment stock really yields well over 5%, and there seems a good chance that the 2% stock dividend may increase a little.

Anoher interesting stock on the big board for yield is **Missouri Public Service,** which pays both cash and stock every quarter. Selling around 18 the stock yields about 4% based on the 72¢ cash dividend and another 2% is obtainable if stock dividends are sold, making a total return of nearly 6%.

For those who don't want to bother with stock dividends, yields of 5% and over can still be obtained in New England stocks such as **Central Maine Power, Eastern Utilities Associates, Maine Public Service,** etc. However as indicated above, the investor who wants yield alone might well consider buying some of the new issues of preferred stock yielding 5 to 5%½.

It's hard to choose among the electric utility growth stocks without making a detailed study of current trends and projections of future earnings. In general, Canadian growth stocks can now be bought more cheaply than U.S. issues. Thus Calgary Power has had an excellent past record, with continued growth indicated by the development of oil and gas around Calgary. British Columbia is also a rapid growth spot, but British Columbia Pow-

er and B. C. Telephone, after looking like promising growth stocks, made poor showings last year. However both have secured rate increases and a study of these issues might prove worth while.

The most favored areas in this country still appear to be Texas, Florida and the entire southeast. The best policy for the smaller investor may be to buy a "package" of stocks of companies operating in this area and put them away in his box. But while price-earning ratios have now come down somewhat from the high levels which prevailed earlier this year, the utility list is still shows a heavy market tone (perhaps due to rising money rates and unfavorable gas utility developments).

The gas utilities remain under a severe handicap with respect to Federal regulation, which is in a muddled and uncertain condition. However, this affects the pipelines and integrated systems rather than the distributing companies. The pipelines will be discussed in a later issue.

The telephone companies have made considerable progress marketwise and earningswise in the past year. **American Tel. & Tel.**, after holding back for many years, is finally splitting the stock 3-for-1 and increasing the dividend rate 10%. Having broken the ice, future dividend increases may follow, though not as frequently as with the average electric utility. AT & T officials refuse to state exactly when their next big issue of convertible debentures or stock will be forthcoming, but it appears likely that (since the company is in comfortable cash position) this can be determined until next year. Currently, earnings are making an excellent showing with indications of over $5 a share this year on the new stock.

**General Telephone** has merged with Sylvania Electric (see special article in the Magazine of Wall Street for March 28). Here also earnings are making an excellent current showing, particularly in the industrial division of the business, which now outweighs the utility business in sales. In general the outlook for the telephone industry remains promising, although it is more cyclical than the electric utility business. END



### Behind The Screens

(*Continued from page 337*)

budget. Results: an 80% increase in unit orders for the first two months of 1959 over the same 1958 period, and a 40% increase in dollar volume. A new advertiser, Revere Camera began a campaign not long ago in a few test areas. Results: a six-month backlog of orders in certain spots. Revlon, with a $7 million TV ad budget has grown immensely in recent years; company's management has rightfully been praised for the tremendous increase in sales — a feat accomplished at least in part through the use of extensive television promotion.

#### Who Pays The Piper . . .

Critics of the quality of television programs are many but the medium is too often blamed for presenting material that is not really of its own choosing. After all, the networks have time to sell and this time is expensive; with prime hours going at such high prices it is no wonder that sponsors try to fill their slots with programs they think the public will want to watch and so promote the sale of their products. Who pays the piper calls the tune, and the tune is arrived at by a complicated process.

No advertiser wants to wait until sagging sales indicate that his message is not getting across, and through various means a continual measuring process goes on to determine what the public is watching and how well any given message is getting through. What the public is watching is determined through the use of one or more of the various rating systems: these systems are often one of the major reasons why a show continues or is dropped like a hot potato. What the public generally hears about though are the top ten shows — and there is a great deal more to the guts of TV than simply running a personality contest. The issue at stake is much larger than pride, and if the network is plagued by

a multitude of problems so is the agency-sponsor team that lays the dollars on the line.

These problems are not static either, they change, disappear, reappear, reproduce and transmute. The sponsor shells out the money, but it is the agency that must determine how this money is to be spent to produce the greatest effect. The cost of reaching the audience must be arrived at, together with market coverage and exposure. The Western-type programs that have invaded the nation's homes like a posse in search of the fugitive consumer dollar point up another problem. Speaking in Atlanta. Georgia. last month, Philip L. McHugh of the Campbell Ewald Agency said that while Westerns capture a large audience, many viewers are not aware of who has caught them; in other words there is an increasing lack of sponsor identification.

### Billion Dollars In Chips

Television is not a game — it's literally a billion dollar business, and like any other business, radical changes are not made in the face of a rising line on the profits chart. If shows are dull to the more sophisticated viewer he should realize that he is a small part of the total viewing audience and that his dollar is outweighed by the pocketbooks of a vaster and more important audience from the point of view of the sponsor who presents a show. This is not to say that change does not take place. For example, Revlon was a prime backer of the now defunct giant quiz program. That these shows are no longer on the air is due at least in part to the fact that the sponsor-agency team sensed that viewer interest was waning and that a change was needed. Today Revlon is shaping up as a host to a relatively new type of show, the spectacular. Personalities are also getting a bigger play, with General Motors' Buick Division sponsoring a new Bob Hope series in the fall.

Television, however, is business not art — and it's big business, getting bigger. Until the audience, the total audience, indicates that it is not satisfied with the sponsors' offerings, there is very little likelihood that any great change in programming will be forthcoming.

### "You And Your Lousy Hamlet"

In February the CBS network presented what was regarded by many as a superb production of Hamlet; more people are believed to have watched this particular show than the total combined audiences that have seen the Shakesperian classic in the theatre in more than 350 years. The public's reaction, as Dr. Frank Stanton, President of CBS, pointed out a couple of months ago, could be summed up by two of the many telegrams he received. One praised the program as 'sheer delight'; the other began 'You and your lousy Hamlet. . .'

Television is subject to daily public criticism by self-styled critics who are, in the main, apparently totally uninterested in making helpful comments. These critics include certain writers as well as parts of the general public — but as the Hamlet situation pointed up, criticism comes from all angles; with regard to TV it just seems impossible to please all the people all the time.

### Outstanding Achievements

But notable strides have been made in the field of programming despite the cries of derision, and the general betterment over several years ago has been carried well beyond the level of mere technical improvement. For example CBS has pioneered the whole field of special news reports and analyses, and the first really educational series offered in the New York area by way of TV has been the CBS sponsored Sunrise Semester, a series of TV courses which count for credits towards a degree from New York University. That these achievements have been mentioned but briefly should not in any way detract from the full measure of praise that they deserve.

### Eventually — Why Not Now

Educational Television on a national scale, however, is running into trouble. Its supporters argue that federal aid to the states for educational TV would help alleviate classroom and teacher shortage, would offer opportunities for education to

many who might not otherwise get them, that the states do not have enough money to do the job themselves and that if aid is not forthcoming, the channels reserved for educational TV would be converted to commercial use. As a result of these considerations, the Senate passed a bill providing Federal aid to the states in developing educational TV, but the Senate-passed bill has encountered increasing opposition in Congress. At the present time a nationwide educational television program seems far distant; but it is highly probable that something along these lines will be worked out eventually.

### The Investor

The investor who seeks representation within the fast growing television industry is faced with a problem. There are three major networks, ABC, CBS, and NBC; but NBC is owned by the Radio Corporation of America and separate data for the television network is sparse. ABC is part of the American Broadcasting-Paramount Company and both it and CBS are corporate entities that embrace other activities beside television broadcasting. American Broadcasting-Paramount, for example, has a movie theatre chain as well as a TV network, and CBS has a number of non-TV divisions which also contribute importantly to earnings. Radio Corp. of course, is a major factor in the electronics field. These outside interests must be taken into account in discussing the earnings of the Big 3.

**RCA** is a leading electronics manufacturer with an important stake in the telecasting and broadcasting fields. While exact revenue figures are not available, in 1958 some 26% of sales was accounted for by network activities.

Mainly due to the fact that RCA does a relatively large volume of defense business and is an important supplier of electronics equipment for commercial use, earnings in recent years have fluctuated. Significant recovery, however, seems indicated in coming months and 1959 earnings are estimated at around $3.00 per share. The stock is considered an attractive longer term commitment for investors seeking a rather diversified situation; while dynamic near term appreciation is not anticipated, the longer range outlook is favorable.

An added factor in the attractive longer-term picture is the extensive research and development activities of the company. This work should both help maintain and further broaden RCA's basic position within the broadcasting and electronics fields.

**American Broadcasting-Paramount** operates a movie chain as well as a fast growing TV network in addition to a radio network and a records company. The company also has a 35% interest in the highly profitable Disneyland Amusement Park and through holdings in various electronics companies has a stake in that fast growing field as well.

In recent years the earnings record has been somewhat erratic, reflecting a poor showing from the theatre business. ABC is an aggressive member of the TV community, however, and is a rapidly expanding network. Where up until a short time ago it was referred to as the 'third network', there are now indications that ABC has grown in stature and size to the point where it is giving both its major competitors a good run for their money. With every indication that the company's growth trend will continue into 1959, earnings for the year are estimated at around $1.75 and the stock is considered to offer appeal for risk accounts.

**Columbia Broadcasting** operates the largest network and the company has a reputation for providing relatively higher grade shows. CBS also has a record division, an electronics business and a radio network.

CBS has an excellent earnings record and revenues have reached annually higher peaks since 1949. The company as of May 15th was entirely sold out for the fall, or 1959-60 season, with only 2¾ hours to be sold and there is every indication that 1959 will be another profitable year with earnings perhaps reaching $3.50 per share. CBS has a good record and the outlook is good for continued growth. While we would not expect anything dynamic from the stock over the near term, the shares do have appeal for the patient investor interested in longer term growth. END

## 1959 — A Recovery Year For The Textiles

*(Continued from page 343)*

will be favorable, although the rate of gain may decrease on a year-to-year basis when the fourth quarter is reached. Recent trade reports indicate a high rate of activity even in the second quarter, which is normally a slow period, and cotton cloth is in short supply with some orders being placed for fourth quarter delivery. The bellwether of the cotton market (eighty-square print cloth which is used in low-priced dresses) is now selling at 19 cents a yard, the highest level since late 1956. If previous patterns hold, 1960 could also be an impressive year as consumer spending for clothing has made cyclical peaks in 1948, 1952 and 1956. Whether the current strength will carry forward into next year is purely a matter of conjecture at this point but if it does, investors willing to speculate may find themselves rewarded with higher prices over the intermediate term. In addition, higher dividends are in prospect especially among some of the synthetic producers where payments were decreased or omitted entirely during the past year or two. Some comments on issues which appear to have better-than-average attraction are given below.

### Issues of Special Interest

***Textile Weavers*** — The outlook for both natural and synthetic producers is favorable but some investors may wish to hedge their position by purchasing the shares of companies which are well diversified and engaged in both phases of the industry. Such a category would include **J. P. Stevens** and **Burlington Industries.** J. P. Stevens has turned in one of the better earnings records of the group, is in a very sound financial condition (net working capital is almost $21 a share and book value amount to $50 a share), and sales are well distributed among cottons (45%), woolens (21%) and synthetics (34%). Burlington is the largest company in the group with an annual sales volume of over $650 million and is also the most widely diversified. The common stock is highly leveraged which is favorable during periods of recovery, but adds to the risk factor.

Although not as widely diversified in the synthetic line as Stevens or Burlington, **Lowenstein & Sons** appears to be an interesting situation among the textile weavers. For investors seeking a senior security but willing to accept some risk the 4⅜% Convertible Debentures outstanding provide a current yield of 5.1% at the present price of 86.

***Synthetic Producers*** — The apparent popularity of the new tire cord, Tyrex, which has stemmed the inroads being made by nylon in the tire field for the time being, enhances the recovery prospects of such companies as **Beaunit Mills, Industrial Rayon** and **American Enka.** The latter is expected to have an especially good year earningswise (possibly better than $3.00 a share compared with $1.48 last year), and entry into the plastic-coated wire field provides additional attraction. In the case of **American Viscose** and **Celanese,** too, there are factors other than the general improvement in major lines which lend appeal to these securities. Chemstrand Corporation (a producer of nylon and Acrilan) and Ketchikan Pulp Company, both 50%-owned by American Viscose, are expanding rapidly and demonstrating very favorable earnings ability, which complements that of Viscoses' rayon and cellophane operations. Acetate continues to be the major line for Celanese but chemicals and plastics now account for over 30% of sales. Next year a new fiber —Teron— will be added to the product line. This polyester fiber is expected to offer competition to du Pont's Dacron.

***Miscellaneous*** — Two companies in the industry which are difficult to classify because of diversified operations but which deserve particular attention because of their investment possibilities are **Cluett, Peabody** and **United Merchants** and **Manufacturers.** The outlook for Cluett is enhanced by its joint venture with West Virginia Pulp and Paper in the "stretchable" paper field. While royalties from this source may not be important from an earnings standpoint for at least two years, the longer-term potential is very encouraging. In the meantime, the company will depend mainly on its basic lines (shirts and sportswear) and earnings may be in the vicinity of $3.00 a share. At present levels the shares do not seem particularly cheap, but there are considerable possibilities if patience is exercised. **United Merchants,** on the other hands, seems to offer a little more in the way of near-term prospects. The company is unusual in that it is the only major firm with a line of retail apparel outlets, the Robert Hall chain. Earnings are in a definite uptrend and reported results for the first nine months of the current fiscal year ending this month indicate the final figure may be in the $2.00 a share range. As a vertically integrated unit, the company has managed to outperform the industry as a whole.

We must emphasize that apparel companies are subject to style changes that sometimes are rapid and if operations are not properly timed, profits can be severely restricted.

***Carpets and Rugs*** — One of the more spectacular recoveries during the final quarter of 1958 was noticed in the home furnishings group. In general, sales and earnings swings of this group are more pronounced than those for the textile industry. Over a period of years the carpet companies have turned in a rather poor performance, but a combination of good consumer demand (aided, in part, by rising housing starts) coupled with low inventories at the retail level have served to boost sales and earnings of the companies in this field. **James Lees & Sons,** long a leader in the group, has consistently turned in a good performance. This was emphasized last year when earnings of $4.55 a share were reported compared with $4.30 in the previous year. Management has indicated that the outlook for 1959 is very favorable. In the more speculative category, **Mohasco Industries** has better-than-average recovery possibilities. This company was formed by the merger of two well known names in the carpet industry, **Mohawk Carpet Mills** and **Alexander Smith.** Mohasco is also benefitting from its 20% interest in the Ban-Lon process for bulking nylon yarn. Higher carpet prices will aid the company in reporting increased sales and earnings this year. END

## Growth Threated By Deteriorating U.S. Financial Strength

(*Continued from page 318*)

rate of economic growth" and "a rising price level (inflation if you will) is likely to be a sign of vigorous economic health. . ." We have had vigorous economic growth with falling or stable prices for over twenty years after the Civil War, from 1910 to 1915, and in the 1920's when national output rose 50% in eight years. As recently as 1951-55 we managed to maintain relative stability in wholesale and consumer prices while reaching new peaks of prosperity.

Far from being healthy, inflation is a narcotic which insidiously saps the strength of an economy. It destroys faith in money and in promises to pay, the essential bases of the savings process and the capital market which energize a free enterprise economy and build the higher living standards everyone wants. As Marriner Eccles, former chairman of the Federal Reserve Board, told the Joint Economic Committee in March:

"Why should anyone buy life insurance or annuities, Government or municipal bonds, utilities or railroad bonds, mortgages or any other kind of fixed interest-bearing obligations payable at a future date in dollars depreciated at the admitted creeping inflation rate of 2 or 3 per cent a year. For the Government to sell such obligations and to permit conditions to develop where not only their obligations but all other fixed dollar obligations are being paid, including interest, in dollars depreciated from 2 to 50 per cent, depending on the maturity dates, is to say the least immoral if not downright dishonest."

### Flight From Government Bonds

*One of the most ominous portents of financial weakness is the growing public suspicion of Government bonds.* Yet the people who glibly theorize about the desirability of a little inflation and vastly increased Federal spending show no awareness of the impossibility of managing a $285 billion public debt if the people become convinced that deficits and inflation have become public policy. We have already reached the stage where an overload of public debt and fears (not yet convictions) of future inflation have put the U.S. Treasury on a hand to mouth basis and raised interest rates on U.S. obligations to the highest levels in more than 25 years. Before Congress goes home this summer, Treasury Secretary Anderson will have to request still another increase in the public debt limit, probably to $290 billion. Mr. Anderson may also take the occasion to request an increase in the 4¼% legal limit on rates the Treasury may pay on bonds. Reflecting public distrust of U.S. obligations, yields on some outstanding Treasury bonds rose as high as 4.44% in May.

It is not surprising that people are reluctant to buy bonds of the U.S. Government. Millions of Americans who bought Savings bonds in World War II found out that when the bonds came due ten years later, the $25 received at maturity bought less than the $18.75 originally invested. Big investors too have lost interest in Treasury obligations. *During the past six years the assets of insurance companies, mutual savings banks, savings and loan associations, and pension funds rose by approximately $100 billion—yet not one penny of this went into Government securities, on balance.*

The Treasury is still able to sell short-term obligations to banks, which create deposits to pay for them, and to business corporations, which this year have found profits pushing up their cash holdings faster than needs for cash have risen. Incredible as it may seem, the same Treasury that talked so long about the necessity to extend debt maturities has financed almost all of the $13 billion fiscal '59 deficit with Treasury bills—the nearest thing to cash. The total of Treasury bills outstanding has jumped from $22.4 billion last June 30 to an unprecedented $34.9 billion on May 31, 1959. *The Treasury recognizes the inflation danger of flooding the economy with near-money, but, with its back to the wall, it has to finance itself as best it can for the time being.*

The Treasury's optimistic hope is that booming business will stimulate the revenues enough to balance next year's federal budget and eliminate the deficit. *The trouble is that even with a balanced budget, the Treasury will have a tremendous volume of short-term debt coming due, much of which was sold this year.* All these maturities will have to be refinanced in a money market in which competing demands for funds—from corporations building inventories and adding to plant and equipment, from States and local governments, from home builders and buyers—are likely to be bigger and in which the availability of money is likely to be reduced as Federal Reserve credit policy becomes more restrictive. The realistic expectation is that the Treasury's problems are not going to be appreciably smaller next year, and, if Congress does not balance the budget, they could be much worse.

The only effective way to solve the debt problem is to generate budget surpluses and reduce the debt. A cheap money policy by the Federal Reserve could temporarily bring interest rates down but the accompanying acceleration of inflation would make bonds even less attractive. *We cannot afford to destroy the people's faith in Treasury securities, the safest securities in the world and the very keystone of our financial asset structure.*

### The Serious Tax Problem

If surplus revenues appear, the imperative need now is to pay down some of the public debt. But hardly less important is the necessity to give attention to a less obvious but no less serious weakness in our financial structure: the corroding influences of excessive tax rates.

*Our tax problem is another illustration of the consequences of taking the seemingly "easy way."* Back in the 1930's we accepted the idea that "soaking the rich" with tax rates that ranged up to 91% could pay all the bills without touching the pocketbook of the average citizen. Of course, it hasn't worked out that way. More than 80% of the Treasury's 140 billion personal income tax take comes from the 20% first bracket

rate. A tax load of $77 billion just has to be spread out onto the shoulders of the masses of the people.

*It is ironic that the punitive tax rates we have adopted hit so hard at small business for which so many tears are shed in Washington. The steep personal tax rates sap the small businessman's ability to build his business out of his own earnings.* They also have pretty well eliminated an important source of outside capital in years gone by; the successful individual who once found pride and profit in giving a lift to budding enterprise no longer has the funds to do so. An incorporated small business faces the corporate income tax, and the 52% maximum rate stands as a block to growth at the $25,000 income level at which it comes into play.

The 52% corporate tax rate, a temporary rate that has been extended and re-extended, is unequalled among major nations. Fifty percent is a critical level for income taxes. Rates this high breed extravagance in deductible expenditures because the U.S. Treasury bears more than half the cost. Such a scale of corporate income taxation has been a powerful inducement to the sale of bonds rather than stock to finance expansion because interest payments are tax deductible while dividend payments are not.

*However, the biggest threat to the long-run well being of our people is the steep scale of our personal income tax.* Starting at 20% it hits 50% at $16,000 of taxable income and rises to a top of 91%, the highest tax rate in the world. In an ever more competitive world we cannot afford such discouragement to the creation of taxable income, such penalties for the energetic and ambitious, such a drain on our savings capacity, and such discouragement to the incentive to invest.

#### Tax System Long Outdated

Today, when all the talk is of growth in order to raise living standards and keep abreast of the Russians, we have a tax system which dates from the Great Depression days of the 1930's. The rates we still have were adopted when we thought we had all the productive capacity we needed and the aim was to discourage "over-saving." But the problem now is not too much saving but too little, as the strained condition of the bond market indicates.

Dr. Solomon Fabricant, director of research of the National Bureau of Economic Research has estimated that, if the growth trends of the past continue, average family income might rise to $25,000 by the mid-1980's. *Under the current schedule of personal income tax rates, this would put the average family into the 38% tax bracket. A single person, without the special relief of income splitting, would find himself in the 59% bracket. More and more above-average individuals in business, the arts and the professions would face punitive 70, 80 or 90% tax rates.*

Could anyone seriously expect the economy to keep growing in this kind of a straitjacket? It is no wonder that the excessive rates have stimulated an avalanche of demands for special tax reliefs. But these are making the tax law ever more complicated and incomprehensible to the average citizen. This breeds disrespect for the income tax and encourages tax avoidance and evasion. The idea spreads that it is "alright to cheat the government, "everybody does it." The threat of a breakdown of our whole tax system has led even the people who developed the confiscatory tax rates to suggest reducing them.

The one encouraging development in the tax picture is that people are beginning to recognize what needs to be done. A number of proposals for tax reform have been put forward and the House Ways and Means Committee on May 17 launched a study of the possibilities of significant income tax rate reductions in 1960. Broad public support could make these hopes a reality and strengthen a crucial part of our financial structure.

#### Strengthening Finances Abroad

While the financial and fiscal underpinnings of the U.S. economy have been weakening, the financial structures of other Free World nations have strengthened remarkably. Public attention has been focused on the contrast by the gold drain out of the United States and into the coffers of central banks and treasuries abroad. So far this year, the U.S. has lost $336 million gold, compared to a $1,038 million outflow in the comparable period of 1958. The U.S. gold stock has been reduced to $20.2 billion, only $164 million above its December 1945 postwar low.

The major concern is the growing difficulty U.S. business is having in meeting foreign competition in world markets. This does not reflect any lessening of our productive genius, but rather the debilitating effects of a steady upward creep in U.S. wages and prices which has made our products overpriced on the counters of the world. If we are to continue to pay our way in the world we shall have to strengthen the dollar.

Another of our financial weaknesses, the highest tax rates in the world, represents a major handicap to the United States in maintaining its world position. *While U.S. tax rates are still close to World War II peaks, other nations have been bringing their taxes down considerably to stimulate incentives and energize enterprise.* Great Britain, for example, in April cut income tax rates to the lowest levels since 1939-40. The top rate of British income tax, once 97½%, is now 88¾% compared to our 91% rate. Canada raised taxes in April but, because of a string of reductions in previous years, the Canadian top tax rate is now only 84%, against a wartime peak of 98%. Australia's top tax rate, 97½% in World War II, is now only 66⅔%. West Germany has a maximum personal tax rate of 55%.

Still another root of the gold outflow is the widespread tendency to feel that the Federal Government can afford to give its citizens more and more good things, even if this means pushing the public debt up toward astronomical levels. *Foreigners know from bitter experience that fiscal irresponsibility leads ultimately to devaluation!*

It is time for political leaders who want to use the public purse to give benefits to everyone to consider whether they also want to give world leadership away. France spent many years in the shadows, despite a basically strong economy, because of financial irresponsibility. The return

to financial orthodoxy and fiscal responsibility which De Gaulee led has been painful but it has returned France to the company of nations which count in world affairs.

The United States is still the world's most powerful nation but it would be folly to ignore signs of slippage. *Our leadership in international finance, centered in New York, cannot be long maintained in the face of the declining prestige of the dollar.* While we have not yet suffered any considerable losses in the financing of world trade or in the provision of financial services — **there is no question that the strengthening of the pound sterling, the mark and the French franc have made London, Frankfurt and Paris, as well as Zurich, serious competitors of New York as financial centers.**

### What To Do

Our financial weakness are not irreparable. *We have spent fourteen years neglecting our own* finances to shore up the economies and financial structures of our friends abroad at a cost beyond $60 billion. Now, our weakening balance of payments, the redistribution of gold that is taking place, the ever more vigorous competition from the foreign productive facilities we helped provide — all these suggest that we have accomplished our task. We have built a stronger world. Let us now mend our own fences.

**Now it is time** to undertake long postponed measures to get our own budget into balance, to get control of our public debt, to provide a more equitable tax system so that we can hold our place in the stronger world we have built.

**The first necessity** is to turn our backs on the counsels of those who speak for the easy way out, for "inevitability" of inflation, for the magic of deficit financing.

As Treasury Secretary Robert B. Anderson said last month the consequences of the "easy way out" have been disastrous through all history: "The story of a nation's downturn has been in one way or another the chronicle of its unwillingness to face reality. Time and again, the choice has been made of an apparently easy way out. People have been misled by a seeming innovation in government or finance, by a misguided leader, or simply through accepting the notion that undesirable developments are inevitable. They have listened to promises that unromantic hard work can be done away with and that difficult problems can be pushed aside."

A nation as great, as productive, as wealthy as ours, simply cannot concede that its financial probelms are beyond solution. It would be a betrayal of all that has made our country great. **END**

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## Eliminate Fetherbedding To Lower Labor Costs

*(Continued from page 331)*

even more costly, than in railroading. It has been estimated that a home may cost up to 25 per cent less than it would if all workers on the job put forth their best efforts. This leads to interesting computations: Last year, 1.2 million housing units were built in the United States at an aggregate construction cost of $13.678 billion. *A 25 per cent loss through featherbedding and similar other labor practices figures to $3.4 billion.* This is added cost imposed by plumbers who *refuse to work* on new homes that do not call for cast iron sewer drains and pipes; carpenters who *refuse to handle* pre-fabricated doors and other items; *painters who are restricted* in the use of sprayers and the size of rollers —and even in the width of the brush; *slow-motion bricklayers* held to a ceiling on their performance and whose *efficiency* is *cut by 60 per cent* as a result; *electricians* who *fix the number of outlets* they will install in one day; many other work limitations.

### Cost By Locality

In the building trade, labor-management contracts are made separately with each craft and on a local basis. That circumstance accounts for the fact that the Federal Housing Administration's sampling of building costs varied from $14,007 in Chicago, to $9,193 in Knoxville, Tenn., for an identical three-bedroom frame house as shown in the accompanying table.

The AFL-CIO Building and Construction Trades Department took cognizance of complaints and drafted a "Statement of Policy," also known as its "10 Commandments." A significant command directs that the welding torch have juridiction over work being welded which means that welders should perform all the work of their trade even though it may overlap another craft. There shall be no limit on production or restriction on use of proper tools or equipment; no non-working stewards (union representatives on the job); slowdowns, forcing of overtime, spread work tactics, standby crews and featherbedding are "condemned." Excellent, if followed!

### The Airline Pilots

One of the more notable methods by which payroll is increased without adding jobs is through the assumption adopted 20 years ago with respect to airline pilots, namely, that their productive life is short and that they should be given a high annual rate of pay reflecting that supposed fact. A recent study showed that *80 per cent of the pilots employed by the airlines 20 years ago still are on the job.* The demand of the pilots union for an additional man in the pit of certain types of planes was one of the grounds of the strike conducted by the employees last December. The companies demonstrated by what seemed to be compelling logic that this was featherbedding, pure and simple. But the extra man went into the cockpit. At that time, the lines entered into an agreement that a struck line would be assisted by operating carriers to the extent that its lost revenue is reflected in the increased revenues of the lines which continued to operate. At the same time the pilots made an agreement among themselves basically the same. The lines were ordered to justify their pact, before the Civil Aeronautics Administration; the pilots were not questioned about their strike war chest.

### Other Flagrant and Costly Abuses

In many states, an additional

projectionist must be in each movie theatre booth, as stand-by. *The Musicians Union requires that a certain number of its members be employed and paid, to sit back stage and look on when an amateur band or orchestra, or a military unit, plays for a benefit or other gathering.* If the deal isn't forthcoming, the performance will be declared "unfair" which means loss of union patronage, and of the custom of those who for any reason will not cross picket lines.

One of the most flagrant instances of featherbedding known to modern unionism has gripped the newspaper publishing business. Many national advertisers order standard copy prepared by their ad agencies, for use in daily newspapers throughout the country. This is particularly true of the large space buyers—cigarette companies, packaged food processors, automobile and gasoline producers. In this practice the advertisement is set and matrixes are impressed, or electrotype processes are used to produce metal copies. The mats or metal reproductions then are mailed to the newspapers with orders to run. The material is placed in page forms, put through the processes and on the press, then to the printed copy and the subscriber. *While all this is going on within the newspaper plant, compositors (printers) sit at their machines and laboriously peck out an exact duplicate of the typed material.* It then is set in page form. *After that it is thrown into the "Hell Box"* (the composing room equivalent of a wast-basket), and at shift's end the type is melted down. The printers are paid full time, in excess of $3 an hour, for material set by them but never intended to be used.

### Conclusion

From the above, it is clear that elimination of featherbedding must be the first step in any Labor negotiation, for otherwise Labor's claim of greater productivity is absurd. It just doesn't exist because, on the one hand, featherbedding is an important factor in higher costs, as can be seen from the above; and on the other hand, the increases in productivity are, in the main, due to the great advances in productive machinery developed at enormous expense during World War II, when we were serving as arsenal for our Allies — and in the post-war period, to achieve profitable operations in the face of the continuing annual Union demands for still higher wages.

The situation has now built up to a crisis, with the influx of foreign goods in our markets heavily undercutting our prices, and the serious loss of our export trade in idustries employing some four million people.

Union leaders must look ahead and adjust to growing competition from the newly industrialized nations in Europe and Asia benefitting from the know-how and facilities afforded them under our Point Four Plan. It is a time for statesmanship—not selfish politics—in order that we may solve the steel impasse, which will set the pattern for the many contracts coming up for settlement soon in a number of industries. END

## As I See It

(Continued from page 313)

nullify the law of supply and demand, and inevitably would stifle uninhibited competition and result in higher prices for the consumer.

"Our people have come far since organization of the state in 1816 without such a law. And we have seen other states, where such regulation is enforced, get into grave fiscal and governmental difficulties because their economy was thus regimented.

"A small army of state government employees would be required to enforce this law. The litigation resulting under it would needlessly fill the calendars of our courts. The inevitable and invariable result would be higher prices which the consumer would be compelled to pay."

In Washington, Senator Sparkman had our article calling attention to this situation reprinted in full in the report of the Hearing before the Select Committee on Small Business — United States Senate — dated April 8, 1959. (As is true of many other features appearing in The Magazine of Wall Street, which in many instances have been reprinted in the Congressional Record.)

We are sending a copy of this editorial, as well as the original story, to every member of the Supreme Court — so crucial do we consider this matter. END

## The Trend of Events

(Continued from page 311)

tees. It would be a progressive step if the Senate would pigeonhole or reject T.V.A's request for a carte blanche to issue their own revenue bonds — which would continue to swell that half of our debt which is camouflaged from public view.

In the interests of fiscal honesty, it would serve a valuable purpose to draw up in one list the enormity of our full debt commitments — as a realistic guide to our Congressmen and money managers. END

## High Flying Glamour Stocks

(Continued from page 322)

chandising business like anything else; stocks move and prices change for a variety of reasons. As we have pointed out, this is often because an industry or stock group catches public attention and becomes "fashionable". Groups move as they are recommended and sold by the financial community. First, a certain group will appear inviting, and it is recommended on an investment basis and often first sold to substantial buyers. The ideas are frequently appropriated by some brokers or dealers, and the stock is then sold to individuals who in turn often give out the plain facts as related to them by their informant, in the form of a "tip" to friends. As stocks move upwards, they attract attention to themselves and generate publicity. Many chartists and tape readers want to buy the stocks which are outperforming the market which then gives a group an added boost. Finally, however, stocks reach a price where they become so obviously overvalued that the institutions start to bail out and so on down the line leaving some investors holding the bag. Since no one can say how high is high, when a stock or group makes an upward move based on emotion rather than on reality, our answer is that if one continues to buy reasonable value and avoids speculative fever, the success of an investment program over the longer term is far more readily assured. END

## Great Britain

*(Continued from page 325)*

Britisher will have more to spend—and find more to buy—in the next year, than he has had at any time since the end of the war.

This is partly due to a deliberate Government decision last fall to stimulate demand at home by relaxing some of the controls which had been imposed since mid 1955. The strategy behind this was to fight the downturn in overseas trade, caused mainly by the recession, and to fight some tendency toward increased unemployment in Britain. The most important decision was to ease restrictions on installment buying. In the last three months of 1958, there was a sharp rise in British spending at home as a result of these moves. Car sales shot up 35 per cent and purchases of other durable items almost as much.

### Unemployment Still a Problem

Unemployment, however, remained a problem—by British standards. About $2\frac{1}{2}$ per cent of the British labor force, 253,000 men and women, out of work by the end of the year, particularly in iron, steel, textile and engineering industries. In the first three months of this year, the employment picture has brightened. But the unemployment figure still remains slightly above two per cent. And whenever unemployment climbs above this figure, the British Government gets nervous—especially in an election year.

To combat this, the Government has been pushing exports with renewed emphasis. It has been coupling this drive with appeals for manufacturers and exporters to keep their prices down, so that the British can compete successfully. They are rightfully worried about sales in the European common market, although thus far their exports to Western Europe have held up surprisingly well, considering that they are not a member of the "club."

### Trade With the Soviet

The British export drive, coming at a time when Prime Minister Macmillan is pushing a softer line toward Russia than his allies, has roused suspicions in many Western capitals. The British fiercely resent even whispers that they are ready to appease Moscow for the sake of more trade. Publicly and privately, British leaders have vowed to stand firm with their allies to resist any Soviet effort to push the West out of Berlin. But this has not eased the suspicions, particularly in France and West Germany, and, to some extent, even among top State Department officials. Many Western leaders privately believe that Macmillan is primarily interested in a summit meeting so that it could lead to more East-West trade, with Britain getting an ample share of this.

The British hotly deny this. Macmillan's views are not dictated by trade policy, they say, but by a genuine desire to reach a tension-relaxing agreement which will lessen the danger of an atomic-hydrogen war. To prove their steadfastness, the British have repeatedly spurned Russian appeals for credits to make possible a gigantic increase in British-Soviet trade. A British trade mission, after weeks of negotiations, signed a five-year trade agreement with the Soviet in Moscow on May 25. But although this provides for a 33 per cent increase in British purchases in Russia, it does not open the way for any dramatic up surge in Soviet purchases from Britain. Further, it provides for no trade in strategic raw materials and machinery, which the rest of the allies have barred from shipment to Russia.

Actually, the agreement signed is a modest one. British purchases in Russia last year totalled about 160 million dollars. Russian purchases in Britain amounted to only 84 million. Soviet buying is expected to go up but only slightly, as long as Britain, like the United States, refuses to finance a strengthening of Russia's economy by loans.

During the time, the British trade mission was in Moscow rumors spread in several Western countries that the British were about to upset allied unity by extending a huge loan to the Soviets. The State Department picked up the report also and promptly asked the British, who indignantly denied it. Nevertheless, the State Department carefully watched the negotiations afterward.

Soviet negotiators redoubled their pressure for credits in the last phase of the talks . . . but the British stood firm. In the end, the Russians gave in. The British proudly announced their agreement, and allied suspicions were eased—at least for a while though further reassurances will be welcomed. END

## For Profit and Income

*(Continued from page 345)*

sues go, at 30, off from recent high of 37. But there is a possible "kicker." The company will release later this year the super-spectacular picture "Ben Hur", on which some $15 million has been spent. Advance trade interest suggests that this film might join the ranks of the super-hits in box-office return, such as "Gone With The Wind" and "Around The World in 80 Days." If so, present purchases of the stock would pay off — possibly quite well. But in show business, of course, only the public decides what is a hit and how long it may be a big success. END

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